IPC US REIT Annual Report 2003

Corporate Profile

Canada's only real estate investment trust to focus exclusively on U.S. properties, IPC US REIT (the "REIT") is the streamlined name for what was formerly IPC US Income Commercial Real Estate Investment Trust. Based in Toronto, IPC US REIT acquires, manages and leases commercial properties, principally Class A office buildings, in mid- to large-sized U.S. cities.

All amounts are in U.S. dollars.

IPC US REIT allows individual Canadians to invest in the U.S. commercial real estate market, receive distributions – in their choice of Canadian or U.S. funds – and enjoy the tax deferral benefits of a Canadian REIT. This year's numbers show that IPC US REIT grew in both portfolio size, distributable income and in distributions to its unitholders.

Adding up the year

The REIT's objectives are to provide unitholders with stable, growing cash distributions derived from income-producing real estate. Since the IPO, distributions have grown from 60.8 to 72.0 cents per unit (effective May 31, 2004). IPC US REIT also aims to maximize unit value through active asset management, as well as accretive acquisitions with favourable financing. In 2003, distributable income for the year increased 63% and our five acquisitions added 2.9 million square feet to the portfolio.

2003	ACQUISITIONS	FINANCING	DISTRIBUTIONS
JANUARY		Special warrants converted into 3.1 million units of the REIT Over-allotment option raised $2.1 million	
MARCH	Acquired 80% partnership in 11 Stanwix Street, Pittsburgh, PA	Second private placement (3.3 million units at $6.85) raised $22.4 million Converted $7.0 million of 2008 debentures into equity, for a $1.2 million cash surplus with no unit dilution Settlement of 2008 debentures simplified REIT structure, raised $5.4 million cash and increased public float	
JUNE	Acquired 60% joint venture interest in Wanamaker Building, Philadelphia, PA		
JULY		Issued 3.3 million units at $7.65 and raised $29.0 million	
AUGUST	Exercised option to purchase land at One Oxmoor Place, Louisville, KY (closes 2008)		
SEPTEMBER			Increased annualized distributions to 70 cents per unit
NOVEMBER	Acquired 100% interest in two Class A office buildings in Ft. Lauderdale, FL Acquired 100% interest in Energy Centre, New Orleans, LA	Issued 2.5 million units at $8.00 and raised $20.0 million	
TOTALS	5 new properties amounting to 2.9 million square feet, bringing total portfolio to 7.4 million square feet	Raised gross proceeds of $74.4 million in new equity (includes $808,000 from DRIP)	Increased annualized distributions by 3.7%

All amounts are in U.S. dollars.

Comparative Balance Sheet

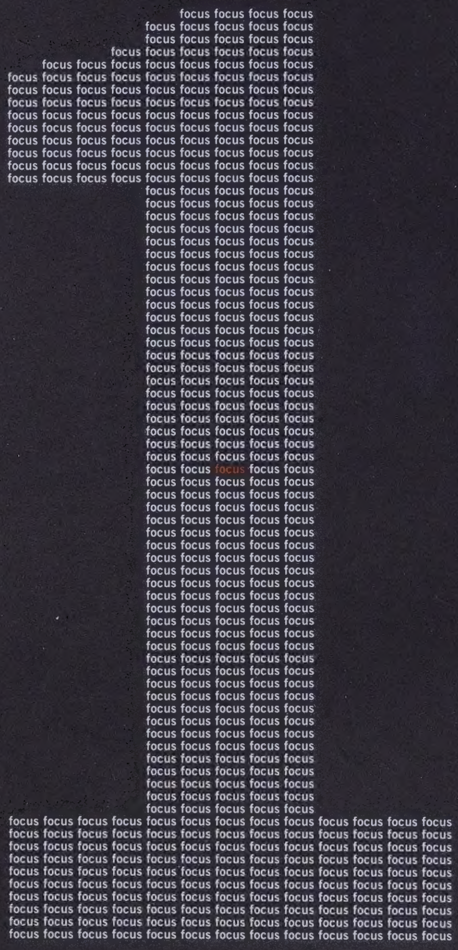
(US$000)	As at December 31, 2003	As at December 31, 2002	As at December 31, 2001
Total Assets	$ 803,105	$ 529,878	$ 374,958
Total Liabilities	573,776	354,428	243,315
Non-Controlling Interest	34,796	47,553	40,221
Unitholders' Equity	194,533	127,897	91,422

Comparative Operating Details

(US$000)	Year Ended December 31, 2003	Year Ended December 31, 2002	12 Days Ended December 31, 2001
Rental revenues	$ 102,247	$ 66,731	$ 1,637
Net Property Income	59,143	40,715	940
Net income	13,271	6,450	163
Distributable income	23,442	14,413	278
Net Income/Unit – Basic (cents)	49.7	38.8	1.1
Distributable Income/Unit – Basic (cents)	87.7	86.7	1.8

Positive

By nearly any measure, portfolio growth, building quality, new equity, or distributable income, IPC US REIT has demonstrated positive numbers to investors since the initial public offering in December 2001. Acquisitions expanded the portfolio in 2003, at per-square-foot costs generally below current replacement costs. Given the prevailing rental markets, the portfolio provides significant potential for long-term income growth.



Strategic

Our U.S. focus is a distinctive opportunity for Canadian investors. This year, our goal was to enhance portfolio quality and stability. Increasing its emphasis on larger cities, IPC US REIT shifted portfolio weight to downtown versus suburban locations: 64.1% of portfolio in central business districts compared with 24.2% at IPO. By year-end 2003, average building size had also increased by 64% since IPO.

Two years ago when we launched the REIT, we set ourselves the objective of providing stable and growing income for unitholders. We are pleased to say that in 2003 we again achieved that goal. Distributable income was $23.4 million or 87.7 cents per unit (87.3 cents fully diluted), compared with $14.4 million or 86.7 cents (86.4 cents fully diluted) in 2002.

Since the IPO, annualized distributions have been increased by over 15 percent. In 2003, distributions per unit were 68.3 cents, up from 62.7 cents in 2002. They are currently at 70.0 cents per unit and are increasing to 72.0 cents to unitholders of record on May 31, 2004.

IPC US REIT also reached its goal of significant growth through acquisitions. With the addition of 2.9 million square feet of office and retail space in 2003 – for total acquisitions of over 4.1 million square feet since the IPO – we have more than doubled the size of our portfolio since going public.

All eight new properties, including the five acquired this year, are truly accretive, having benefited our unitholders from day one.

These acquisitions have been made in a U.S. office market that remains highly competitive with rising real estate values, despite lacklustre economic conditions. Under these circumstances, we are particularly proud of our continued success in acquiring stable, productive assets under favourable terms. In 2003, IPC US REIT diversified into two new states, establishing a presence in the South, where we hope to increase our investments.

At the same time, we focused on the management and performance of our existing portfolio, and on sustaining or enhancing asset value.

Over the last two years, we have strengthened our management team and our systems to provide the capacity for present and future growth. Adding capable property managers with each acquisition has ensured that we can provide the high quality of service that our tenants expect. This is essential. Along with regional diversification, sustaining our relationships with the excellent tenants in our properties improves the stability of IPC US REIT's earnings. Our reputation as a landlord of quality remains strong across our markets. While the difficult U.S. economic climate put pressure on leasing markets, our portfolio performance remains on track, and very close to our targets. Our success in this area can be seen in high occupancy levels that average 93.7 percent across the portfolio.

Productive

The five buildings acquired during 2003 will add $35,800,000 to annualized rental income, representing an increase of 45.44% to the portfolio's annualized rental income. IPC US REIT also earns fees for management of these properties.

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1

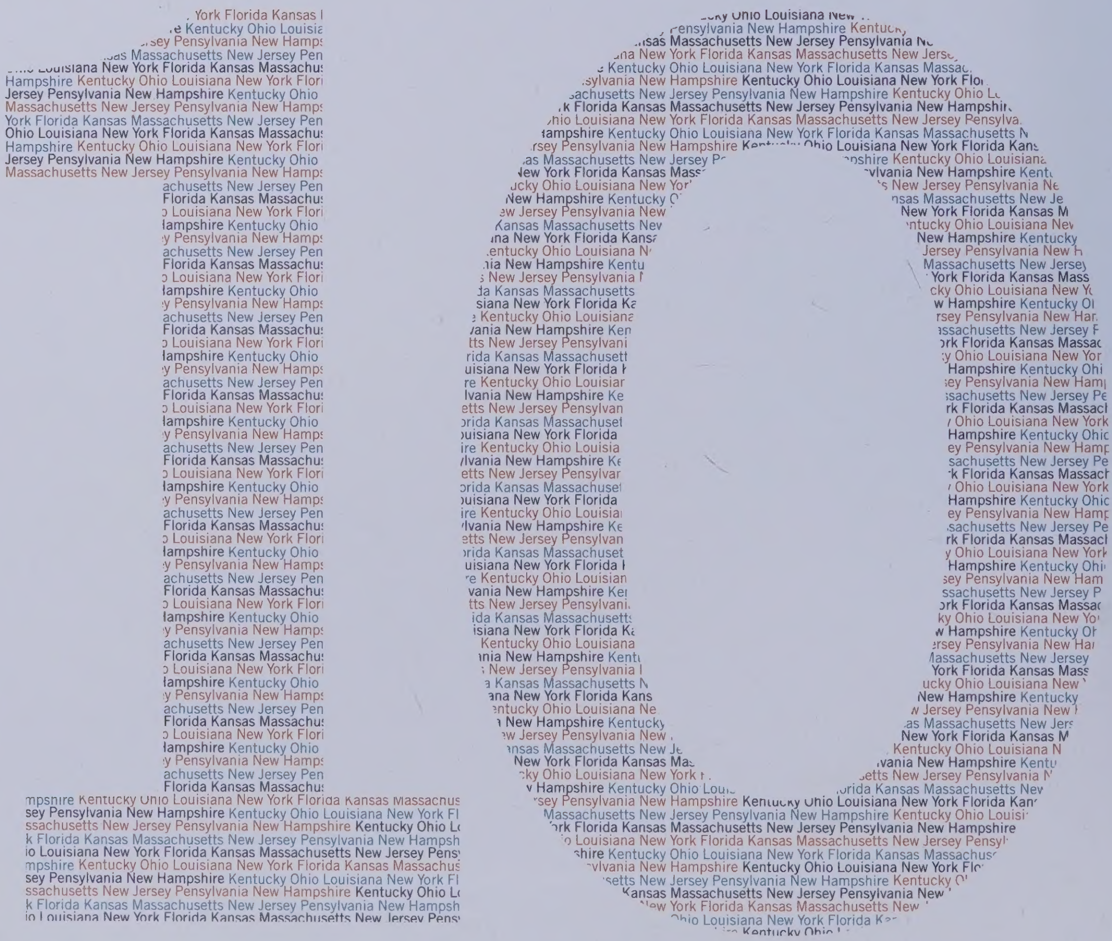
1

+1

45.44%

Diversified

Since IPO, the portfolio has grown from six states to ten. In 2003, IPC US REIT entered three new markets, Pittsburgh, South Florida and New Orleans. As diversity increases, the risk profile within any single region typically decreases. At IPO, for example, Kentucky was our largest market at 39.9% of annualized rental income. New acquisitions cut this exposure virtually in half to 20.7% by the end of 2003.



Among our 31 properties

EPIC CENTER
Wichita, KS

287,000 sq ft

MCDONALD
INVESTMENT CENTER
Cleveland, OH

478,000 sq ft

123 TICE BOULEVARD
Woodcliff Lake, NJ

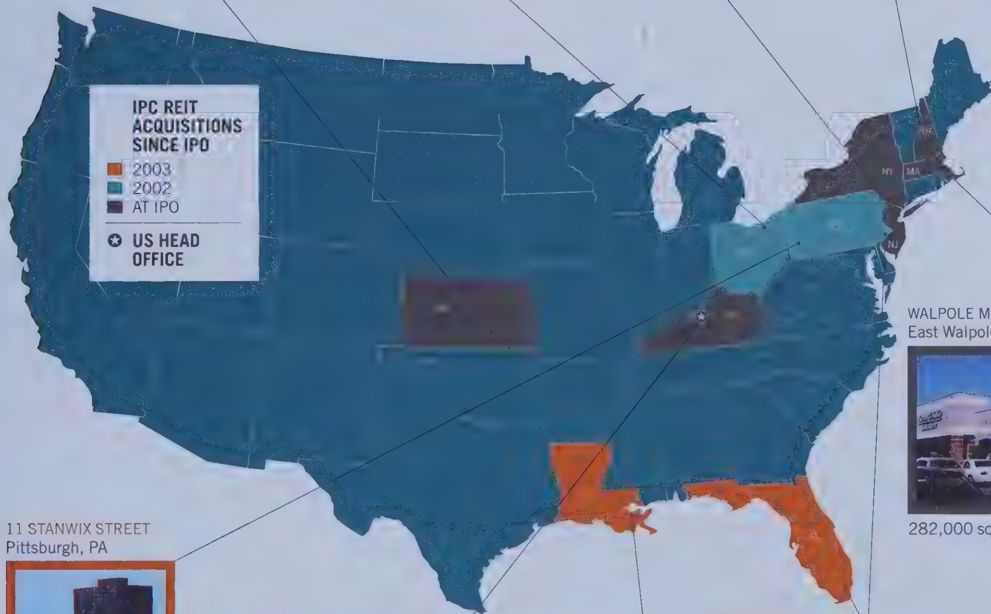
123,000 sq ft

ONE CHESTNUT PLACE
Worcester, MA

183,000 sq ft

CITY HALL PLAZA
Manchester, NH

210,000 sq ft



WALPOLE MALL
East Walpole, MA

282,000 sq ft

11 STANWIX STREET
Pittsburgh, PA

430,000 sq ft

This is a Class A office building in the central business district of Pittsburgh, a city currently undergoing major repositioning. Return-on-equity is estimated at over 15 percent.

ONE OXMOOR PLACE
Louisville, KY

137,000 sq ft

ENERGY CENTRE
New Orleans, LA

223,000 sq ft

Located at one of the most prominent addresses in downtown New Orleans, Energy Centre provides a going-in return-on-equity of over 13 percent.

WANAMAKER
Philadelphia, PA

1,400,000 sq ft

Covering a full city block, this 1.4 million-sq. ft. landmark building is across the street from Philadelphia's city hall. IPC US REIT acquired a 60 percent joint venture interest.

ROYAL CARIBBEAN/
DEVRY
Ft. Lauderdale, FL

762,000 sq ft

The two newly constructed buildings at this address in the Miramar district are leased by Royal Caribbean Cruises and DeVry University until 2016 and 2017 respectively.

We continue to invest in our existing properties to preserve and, where possible, improve value. We have upgraded lobbies and common areas at several of our properties and have well maintained all our assets to ensure their performance. In the current competitive environment, we feel positive about our performance and poised to take advantage of upswings in the economy.

Through both our acquisitions and our leasing efforts, our lease maturity profile has also extended, from an average of nine years to eleven. During the year, we succeeded in renewing 300,000 square feet of leases due to expire, including early renewals, as well as leasing an additional 110,000 square feet. In the first quarter of 2004, approximately 25% of leases scheduled to expire in 2004 have renewed or have agreed to do so.

Furthermore, through private placements and public offerings, we have been very successful at raising new equity to repay acquisition financing and position the REIT for further growth: $74.4 million in 2003. Subsequent to year end, another $34.9 million of equity was raised at US$8.55 per unit.

We also pursued partners to share ownership of our properties, a strategy that raises capital and reduces risk exposure without significantly reducing our share of income. The REIT earns fees from these properties for asset and property management, a transaction fee and potentially a carried interest.

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Significant

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Stable

We continue to improve the stability of our income through long-term leases with creditworthy tenants. With successful renewals, new leases and acquisitions, leases for 43.5% of the portfolio mature in 2009 or later, compared with 38.2% at IPO. The weighted average lease term is 11 years compared with 9 years at IPO.

Subsequent to year-end, existing partners acquired 14% of our Florida properties and 12.14% of the New Orleans Energy Centre, together raising $5.9 million in capital. The 11 Stanwix property was acquired as a partnership interest while the Wanamaker Building was acquired as a joint venture. Where feasible, the REIT will continue to involve partners or joint ventures.

Going forward, we will continue to manage our portfolio for optimum performance and sustain our commitment to protect stability and income.

At 4.4 billion square feet, the U.S. commercial real estate market is nearly twelve times the size of Canada's, and we foresee attractive opportunities for continued growth for our unitholders. We will actively pursue our current acquisition strategy, examining promising markets to seek out further undervalued, high-potential assets with long leases and financially sound tenants.

After two full years of successful operation, we have affirmed our strategy. Although the market is highly competitive, we have established IPC US REIT as a significant player in mid-size markets.

With a prudent eye, however, we will also monitor opportunities to be more value-driven, with an open mind to slightly higher risk with greater upside. Improvements in the economy, growth in employment, declines in vacancy rates and further diversification of our own portfolio may allow us to consider opportunities that we might not have otherwise. This might include properties in primary markets or specific properties where we can benefit by using our expertise to add value. In doing so, we will look first at adjacent regions where we have the capacity to manage efficiently and take advantage of economies of scale.

While our theme this year is numbers, the heart of our success – the driver behind those numbers – is our people. Their expertise, insight and sound governance enable us to identify and negotiate the right opportunities, to manage them effectively, to create and sustain relationships. To ensure we attract, maintain and motivate the best people, and reward them for significant performance, we have proposed initiating a long-term incentive plan which we will be asking unitholders to approve at the 2003 annual and special meeting.

On behalf of the trustees and management, I thank you for your trust in IPC US REIT.

Vinay Kapoor
President and Chief Executive Officer
Toronto, Ontario
March 29, 2004

Accretive

Accretive acquisitions add to income after all costs are factored in. By effectively managing existing properties, as well as this growing number of new properties, IPC US REIT has been able to increase distributions 3 times since the IPO; a gain of over 15%. By the end of 2003, distributions per unit were 70.0 cents per unit, annualized. During the first quarter of 2004, the REIT announced the fourth distribution increase in two years: distributions will increase to 72.0 cents per unit, annualized.

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Financial Review

OVERVIEW

The REIT is Canada's only real estate investment trust investing exclusively in U.S. properties. Through the REIT, Canadian investors can invest in U.S. commercial property and receive distributions linked to the U.S. dollar with the tax deferral benefits of a Canadian REIT. Investors can choose to receive distributions in either Canadian or U.S. dollars. In 2003, 80.55% of the REIT's distributions were tax deferred in the form of return-of-capital and the remaining 19.45% is a dividend entitled to the dividend tax credit. For 2004, the REIT expects approximately 75% of the distributions to be tax deferred and the balance to be entitled to the dividend tax credit. Dividends received from the REIT by non-corporate U.S. investors should be eligible for the new 15% maximum rate on dividends. The units are eligible for RRSPs and registered pension funds and are not deemed to be foreign property.

The REIT is a growth-oriented real estate investment trust focused on acquiring accretive and stable commercial properties in the United States in order to increase distributable income and enhance Unitholder value. The REIT commenced operations on December 13, 2001, by way of an initial public offering ("IPO"), with the acquisition of IPC (US), Inc. ("IPC US Inc."). At the time, IPC US Inc. owned a portfolio of 23 properties with an aggregate leaseable area of 3.4 million square feet ("Initial Portfolio"). The REIT initially acquired a 72% economic interest in IPC US Inc. with members of the Paul Reichmann family owning the remaining 28%.

At December 31, 2003, IPC US Inc. and, recently created IPC (US) II, Inc. (collectively "IPC US") owned and operated a portfolio of 31 properties containing 7.4 million square feet ("Properties" or "Portfolio"). The REIT's economic interest in IPC US was 89%.

The REIT's primary objectives are:

- to provide Unitholders with stable and growing cash distributions from the revenue the REIT derives from its income-producing real estate; and
- to maximize unit value through ongoing active management of the REIT's assets, acquisition of accretive properties and financing them on favourable terms.

KEY PERFORMANCE DRIVERS

There are numerous factors, many beyond Management's control, which can affect the REIT's ability to achieve its goals. These key performance drivers are divided into internal and external factors.

Management believes that the key internal drivers are:

- maintaining tenants whose leases are expiring;
- extending lease terms;
- increasing occupancy by leasing up vacant space;
- increasing rental rates as market conditions permit;
- maintaining high levels of tenant service which leads to high tenant retention; and
- reducing occupancy costs through achieving economies of scale and the diligent managing of costs.

Management believes that the key external drivers are:

- the availability of acquisition opportunities which meet the REIT's criteria and level of competition;
- the ability to raise capital at a reasonable cost;
- the economic environment for tenants' businesses; and
- the availability of financing at a reasonable cost.

The key performance indicators by which Management measures the REIT's performance are as follows:

- distributable income;
- occupancy;
- "same store" net operating income;
- renewal of expiring leases;
- easing of vacant space;
- acquisition of accretive properties;
- overall indebtedness level; and
- weighted average cost of debt.

PORTFOLIO OF THE REIT

Property Profile

The REIT's Properties are owned through subsidiaries of IPC US and consist of high quality, multi-tenant, income producing properties that are strategically situated to provide convenient access and visibility within their markets. Each of the Properties is located in the heart of a Central Business District ("CBD") or in a desirable suburban market. Located in U.S. mid-sized cities in the Eastern and Central states of Pennsylvania, Kentucky, Kansas, New York, Massachusetts, Ohio, New Hampshire, New Jersey, Louisiana and Florida, the 31 properties consist of 25 office buildings and six retail centers. The REIT's focus is on income producing office properties. Office properties make up 90.9% of total annualized rental revenues.

Tenant Profile

The Portfolio is well diversified in its tenant base. No single tenant accounts for more than 5.3% of annual rents. The largest individual tenants are government agencies (nearly 15%).

9.5% of the REIT's Portfolio expires in 2004. Of these expiries, approximately 25% have already been renewed or are subject to agreements to renew. 43.6% of the Portfolio expires in the four years from 2005 to 2008 (3.03 million square feet).

IPC US is proactive in managing its expiring leases. In addition to leases expiring in the current year, IPC US actively pursues early renewal of future years' expiries. IPC US has historically experienced a tenant renewal rate (including early renewals) in excess of 75% and expects this retention rate to be maintained.

The U.S. Commercial Market

The REIT is focused on the acquisition and management of well-leased, quality, commercial real estate (primarily office) in the U.S. The breadth and depth of the U.S. market provides more acquisition opportunities than are available in Canada. The U.S. office market at approximately 4.4 billion square feet is almost 12 times as large as Canada's. The U.S. has 98 cities with over 500,000 population as compared to nine in Canada. Although our focus is on markets that are mid-size in the context of major American metropolitan areas, they are not mid-size when compared to Canadian markets. For instance, the Philadelphia Metropolitan Statistical Area has a population of 6.2 million and 122 million square feet of office space as compared to Toronto, Canada's largest city, with a population of five million in its Census Metropolitan Area and 138 million square feet of office space. Each of the REIT's seven largest markets has more than one million people putting them on a par with Canada's largest four markets.

In addition, the U.S. debt market is significantly deeper than the Canadian market, offering a much larger institutional, bank and mortgage lender base. Borrowing costs are materially lower in the U.S. than in Canada and long-term fixed rate financing is readily obtainable due to the competitive marketplace.

Acquisitions

Recognizing the general concern with the state of the U.S. economy, the REIT has been focusing its acquisition efforts on properties with long-term creditworthy leases. The buildings we have acquired to date provide additional stability to the REIT by lengthening the lease maturity profile and adding portfolio diversification, ultimately helping to increase distributions to Unitholders. Acquisitions have been financed with long-term debt, almost all of which is fixed-rate.

The REIT has been an aggressive acquirer since the IPO in December 2001, completing $430 million (REIT's share $379 million) of property acquisitions to date, more than doubling the REIT's property assets. These accretive acquisitions have led to three distribution increases since the IPO.

Acquisitions Since IPO

Year	Property	Location	Sq.Ft. (000's)	REIT Interest	Price* ($ million)	Cap Rate
2002 July	1650 Arch Street	Philadelphia, PA	553	89%	$ 72	9.50%
2002 July	McDonald Investment Center	Cleveland, OH	478	100%	46	11.25%
2002 October	Bank One Plaza	Lexington, KY	235	100%	22	10.75%
2003 March	11 Stanwix Street	Pittsburgh, PA	430	80%	40	10.25%
2003 June	Wanamaker Building	Philadelphia, PA	1,407	60%	122	10.00%
2003 November	2300 SW 145th Ave.	Fort Lauderdale, FL	223	100%	49	8.30%
2003 November	Energy Centre	New Orleans, LA	762	100%	79	9.25%
			4,088		$ 430	

*Price represents 100% value

2003 Acquisitions
On March 31, 2003, a subsidiary of IPC US Inc. acquired an 80% partnership interest in 11 Stanwix Street, a 429,700 square foot, 23-storey, Class A office building in Pittsburgh, Pennsylvania. The purchase price for the property (100%) was $40 million, financed by assumption of a $31.1 million (100%) fixed-rate mortgage at 7.99% maturing in 2011. The building is 84% leased. IBM leases approximately 174,000 square feet (41% of the building) until 2009. Cohen Grigsby, a local law firm, leases approximately 63,000 square feet (15%) until 2008. CBS Corporation (Viacom) leases approximately 33,000 square feet. CBS recently extended its lease on approximately 20,000 square feet until 2008; the balance expires in 2005. The remainder is leased to a group of smaller tenants, including Xerox and Pittsburgh Telecom.

On June 2, 2003, a subsidiary of IPC US Inc. acquired a 60% partnership interest in the Wanamaker Building ("Wanamaker"), a 1.4 million square foot, 12-storey Class A landmark property in downtown Philadelphia, Pennsylvania. Partners, including existing owners, own the balance. Wanamaker covers a city block and is across from the City Hall. The property contains 972,000 square feet of office space and 435,000 square feet of retail space (Lord & Taylor Department Store). There is a 660-space indoor parking garage. The purchase price for the property (100%) was $122 million representing a 10% going-in capitalization rate on the in-place income. Debt financing arranged included: (a) a new $65 million, ten-year, fixed-rate mortgage at 5.38% secured by the office space; (b) a new $5 million, three-year floating-rate loan at LIBOR plus 250 basis points secured by the retail space; and (c) an assumption of a $15 million, 4.75% fixed-rate subordinated loan due in 2018. The average going-in interest rate on the debt financing was 5.2%.

On August 29, 2003, IPC US Inc. exercised its option to purchase the land on which One Oxmoor Place in Louisville, Kentucky is constructed. The purchase price is $5.38 million and closing will occur in 2008.

On November 21, 2003, a subsidiary of IPC (US) II, Inc. purchased two newly constructed Class A office buildings located in Miramar (Fort Lauderdale), Florida totaling 222,600 square feet. Royal Caribbean Cruises and DeVry University occupy these buildings on long-term leases expiring in 2016 and 2017, respectively. This acquisition provides a going-in return-on-equity of over 13%. The total purchase price for the properties (100%) was $49.4 million. Financing of $33.4 million was arranged at a fixed rate of 5.42% for ten years.

On November 24, 2003, a subsidiary of IPC US Inc. acquired the Energy Centre, a 762,000 square foot, Class A office tower in New Orleans for $78.5 million (100%). Financing of $54 million at a fixed rate of 5.69% for ten years was arranged. The acquisition provides a going-in return-on-equity of over 13%. Energy Centre is centrally located at 1100 Poydras Street, one of the most prominent corporate addresses in the downtown New Orleans market, and contains a separate 466 space parking structure. Energy Centre has a diverse tenant base with no one tenant occupying more than 10% of the building. The four largest tenants in the building combined occupy 31% of the leaseable area under leases with staggered maturities commencing in 2008 through 2013.

Given that our acquisition costs per square foot of rentable area are generally below the current replacement cost, and given the prevailing market conditions, management believes that the REIT's Portfolio provides significant long-term income growth potential.

Distribution Policy
The REIT targets to make cash distributions to Unitholders equal to approximately 80% of the REIT's distributable income. This payout ratio is significantly below the average for comparable Canadian commercial REITs (which have an average payout ratio in the range of 88%). The REIT adopted the lower payout ratio in order to provide more stability, ensure adequate funds for leasing and capital, and provide comfort that distributions can be maintained. The REIT met this target in 2003, paying out 79.6% of distributable income.

Partnerships and Joint Ventures
In 2002, the REIT commenced a program of identifying partners to participate in its acquisitions. The intent of this program is to increase the REIT's income through asset management fees, property management fees, transaction fees and fees for arranging financing, as well as, if appropriate, participation in profits above a threshold return. The REIT has operational decision making in all such partnerships and joint ventures. Arch Street, 11 Stanwix Street and the Wanamaker Building are held in partnerships. Subsequent to year end, certain of the REIT's existing partners acquired partnership interests in the Florida and New Orleans properties. Capital raised for 14% of the Florida properties was $2.43 million and for 12.14% of the New Orleans property was $3.5 million.

This syndication program provides benefits to the REIT in addition to fee income. It provides an additional source of capital, reduces risk and establishes and maintains a network of relationships which might assist the REIT in acquiring properties in the future.

The following is a summary of the Properties owned as of December 31, 2003:

Property	Net Rentable Square Feet	Percent Leased	Annualized Rental Income [1]	Percent of Portfolio Annualized Rental Income
Office Properties:				
Philadelphia, PA				
1650 Arch Street [4]	553,349	99.5	$ 12,240,000	9.99
Wanamaker [6]	962,044	95.6	18,590,000	15.19
Pittsburgh, PA				
11 Stanwix Street [5]	429,663	83.7	8,120,000	6.63
Louisville, KY				
Hurstbourne Forum Office Park [2]	328,368	98.8	5,430,000	4.43
Hurstbourne Place [2]	232,890	91.9	4,120,000	3.36
Hurstbourne Park [2]	104,237	93.4	1,560,000	1.28
One Oxmoor Place [2] [3]	136,809	91.2	2,650,000	2.16
Executive Park [3]	109,389	82.7	1,360,000	1.11
Lakeview [2]	76,999	94.7	1,310,000	1.07
Steeplechase Place	76,666	81.6	1,110,000	0.90
Hunnington I	61,862	90.8	930,000	0.76
Lexington, KY				
Bank One Plaza	234,653	89.5	3,760,000	3.07
New Orleans, LA				
Energy Centre	762,131	90.1	11,330,000	9.25
Cleveland, OH				
McDonald Investment Center	477,787	99.8	9,350,000	7.64
Wichita, KS				
Epic Center [2]	287,263	86.0	3,790,000	3.09
One Brittany Place	57,670	100.0	870,000	0.71
Two Brittany Place	57,559	84.5	670,000	0.55
Manchester, NH				
City Hall Plaza	209,715	96.2	4,720,000	3.85
Staten Island, NY				
One Edgewater Plaza	255,880	95.4	4,740,000	3.87
White Plains, NY				
222 Bloomingdale Road [2] [3]	139,644	97.8	3,770,000	3.08
Woodcliff Lake, NJ				
Sony Building	123,000	100.0	2,090,000	1.71
Mirimar, FL				
Royal Caribbean / Devry	222,600	100.0	4,320,000	3.52
Worcester, MA				
One Chestnut Place	183,106	99.7	4,020,000	3.28
Two Chestnut Place	34,844	71.0	430,000	0.35
Subtotal for Office Properties	**6,118,128**	**93.5**	**$111,280,000**	**90.86**
Louisville, KY				
Hurstbourne Forum Shopping Center [2]	134,963	92.8	1,990,000	1.63
Hurstbourne Plaza Shopping Center [2]	113,278	86.8	1,130,000	0.92
Wichita, KS				
Brittany Retail Center	214,772	86.9	1,550,000	1.26
Normandie Village Shopping Centre	91,306	97.8	1,050,000	0.86
Comotara Center	55,488	97.8	690,000	0.57
Philadelphia, PA				
Wanamaker [6]	435,475	100.00	1,400,000	1.14
East Walpole, MA				
Walpole Mall	281,999	93.3	3,380,000	2.76
Subtotal for Retail Properties	**1,327,281**	**94.4**	**$ 11,190,000**	**9.14**
Total for All Properties	**7,445,409**	**93.7**	**$122,470,000**	**100.0**

(1) Includes base rent, recoveries of operating expenses and taxes, and other amounts payable as rent such as amounts in respect of storage and parking.

(2) Space in this property was effectively leased by PRF Properties, Inc. pursuant to the PRF Lease Arrangements described in Note 10 to the financial statements under – "PRF Lease Arrangements." The applicable percent leased rate includes space subject to the PRF Lease Arrangements.

(3) Subject to land leases expiring in 2063 (One Oxmoor Place – option to purchase exercised; closes in 2008), 2067 (Executive Park) and 2083 (Bloomingdale Road).

(4) Ownership in the 1650 Arch Street property is an 89% partnership interest.

(5) Ownership in the 11 Stanwix Street property is an 80% partnership interest.

(6) Ownership in the Wanamaker Building property is a 60% joint venture interest

Lease Maturities

Lease maturities of the Portfolio have improved since the IPO in December 2001:

	2004	2005	2006	2007	2008
At December 31, 2003					
Office Properties					
Square Feet Expiring	653,282	384,878	676,333	708,700	772,967
% of Portfolio Expiring	10.7%	6.3%	11.1%	11.6%	12.6%
Retail Properties					
Square Feet Expiring	57,069	102,561	152,980	35,051	192,916
% of Portfolio Expiring	4.3%	7.7%	11.5%	2.6%	14.5%
All Properties					
Square Feet Expiring	710,350	487,440	829,310	743,750	965,880
% of Portfolio Expiring					
IPO Portfolio	16.3%	11.4%	16.5%	14.7%	11.1%
Acquisitions	4.0%	2.6%	6.8%	6.1%	14.5%
Total	9.5%	6.6%	11.1%	10.0%	13.0%
At December 20, 2001					
Square Feet Expiring	650,090	357,750	569,940	327,310	178,740
% of Portfolio Expiring	19.3%	10.6%	16.9%	9.7%	5.3%

With successive renewals, new leases, and acquisitions, lease maturities in 2009 and later for the Portfolio are 43.5% as compared to 38.2% at IPO. As at December 31, 2003, the weighted average term of the leases of the Properties is 11.0 years and the weighted average of the remaining term is 6.0 years. Leases expiring in 2004 include two large tenants totaling 236,000 square feet. One tenant (123,000 square feet) had agreed to renewal terms but recently announced a major corporate restructuring which reduces the probability of renewal going forward. The second tenant (113,000 square feet) has indicated its intention to renew for an additional 15 years.

During 2003, 292,315 square feet expired. Of this, 149,250 square feet was renewed (83,763 square feet of office and 65,487 square feet of retail). 153,908 square feet expiring in 2004 and later was renewed in 2003 while another 49,896 square feet of space is on month-to-month leases (of which 36,604 have been renewed in 2004). Details provided in the following table:

	Square Feet	Rent per Square Foot
Expiries		
Office	186,726	$ 15.44
Retail	105,589	$ 11.88
Total Expiries	292,315	$ 14.15
New Leases		
Office	76,509	$ 18.06
Retail	32,739	$ 9.66
Total New Leases	109,248	$ 15.54
Renewals		
Office	83,763	$ 17.02
Retail	65,487	$ 11.23
Total Renewals	149,250	$ 14.48
Total Early Renewals	153,908	$ 6.39
Total Month-to-Month	49,896	

The following is a comparison of the occupancy and average rental rates for the Portfolio and the office and retail segments as at December 31, 2003 and December 31, 2002:

	December 31, 2003	December 31, 2002
Office Occupancy Percentage	93.5%	94.1%
Office Avg. Rental Rate	$ 18.15	$ 17.54
Retail Occupancy Percentage	94.4%	93.6%
Retail Avg. Rental Rate	$ 7.25	$ 9.47
Portfolio Occupancy Percentage	93.7%	94.0%
Portfolio Avg. Rental Rate	$ 16.19	$ 15.95

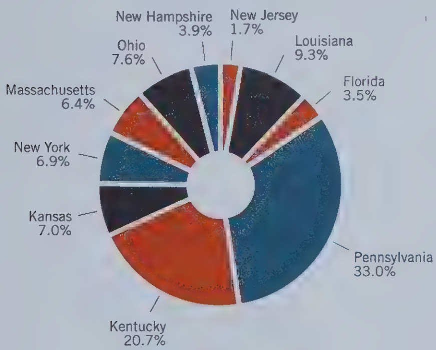
In general, occupancy rate and average rental rates have changed minimally since the end of 2002. Average office rental rates are slightly higher resulting from higher average rental rates from the new acquisitions in 2003 and from a number of rental rate increases during the year. Average retail rates are lower as a result of a large retail tenant at Wanamaker (435,000 square feet) at very low rents.

GEOGRAPHIC DISTRIBUTION

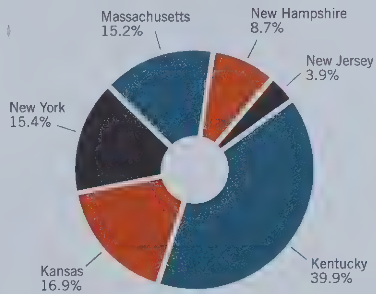
Since the IPO, the REIT entered into four new States diversifying the Portfolio further. The REIT will continue to seek to diversify the Portfolio with future acquisitions. Locating in and near markets where the REIT currently operates allows it to leverage off its existing management to achieve economies of scale. However, should opportunities exist outside of these markets, the REIT will look at such opportunities with a view to further diversifying its Portfolio. The REIT does not limit its geographic focus. It has and will continue to review potential acquisitions in the largest U.S. cities (including New York, Chicago and Boston) as long as such investments are in accordance with the REIT's investment strategies. The REIT now owns properties in ten States. Based on annualized rental income, the distribution is as follows at December 31, 2003 (as compared to IPO):

By State:

At December 31, 2003:



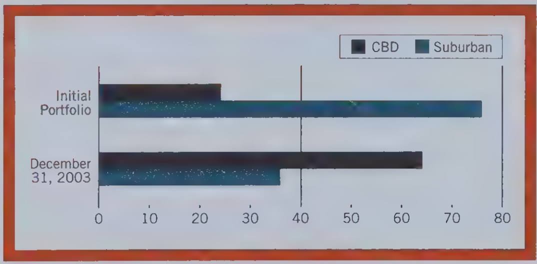
At December 20, 2001:



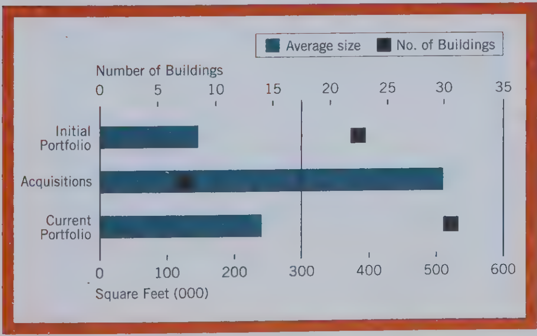
Building Type and Size

Since the IPO, the REIT's acquisition focus has been on larger buildings in CBDs. As a result, the nature of the Portfolio has changed is evident by the following:

The following shows the building type for the Properties on the basis of annualized rental income. As shown in the chart, the portfolio has increased the percentage of rental income derived from within CBDs.



The following shows the average size of the portfolio on the basis of square feet of properties acquired versus the properties that existed at IPO.

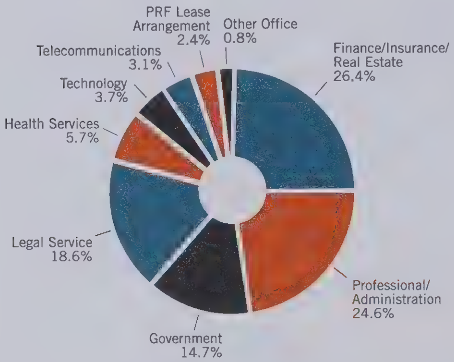


Tenant Mix

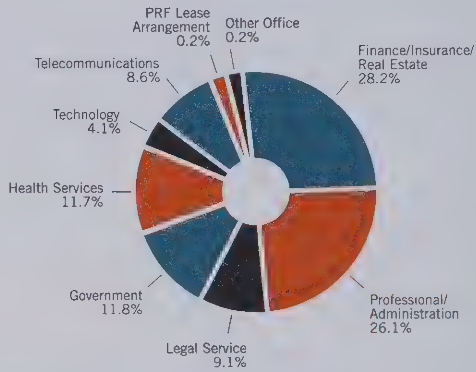
The following charts show the tenant mix for the Properties on the basis of annualized rental income. As shown in the charts, the Properties continue to have a balanced mix of tenants.

Office Properties

At December 31, 2003:

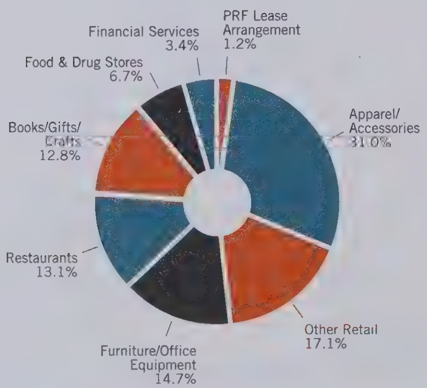


At December 20, 2001:

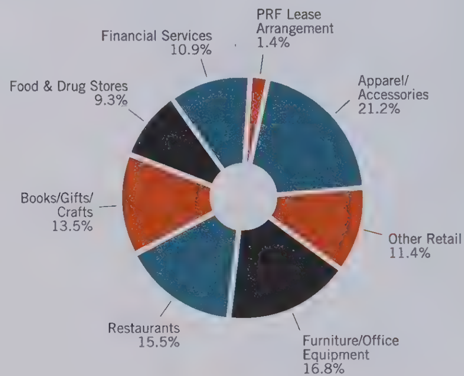


Retail Properties

At December 31, 2003:



At December 20, 2001:



BUSINESS ENVIRONMENT

During 2003, leasing markets and investment markets moved in opposite directions. Rental rates and occupancy levels experienced softness, while acquisition prices increased. The strength in acquisition investment activity, given the softness in the rental markets, is a function of risk-adjusted returns being quite favourable, in relative terms, in real estate.

Office space has experienced pressures from reduced demand for space and competition resulting from sublet space. These trends are expected to be with us in the short-term. The softness, however, has prevented any significant new office development. Longer term, given the lack of development, office rental rates should again experience growth, as economic expansion absorbs the current excess capacity. The REIT's markets have generally experienced less stress than the national averages.

The low interest rate environment has also resulted in a more competitive acquisition environment, resulting in higher asking prices for quality real estate product with corresponding lower going-in returns. There currently does not appear to be inflationary pressures, however, Management is of the view that such inflationary pressures will surface during the later part of 2004 as North American economies continue to improve, which may result in an escalation in interest rates and impact the asking prices for real estate.

FINANCIAL RESULTS

Annual and quarterly information presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Comparative Balance Sheet

(US$000)	As at December 31, 2003	As at December 31, 2002	As at December 31, 2001
Total Assets	$ 803,105	$ 529,878	$ 374,958
Total Liabilities	573,776	354,428	243,315
Non-Controlling Interest	34,796	47,553	40,221
Unitholders' Equity	194,533	127,897	91,422

Net income and distributable income analysis

Comparative Operating Details

(US$000)	Year Ended December 31, 2003	Year Ended December 31, 2002	12 Days Ended December 31, 2001
Rental revenues	$ 102,247	$ 66,731	$ 1,637
Operating costs	43,104	26,016	697
Net Property Income	**59,143**	**40,715**	**940**
Interest expense	27,332	19,578	535
General and administrative expense	3,034	1,446	43
Interest and other income	(474)	(283)	(32)
Depreciation and amortization	6,681	4,528	105
	36,573	**25,269**	**651**
Income before the undernoted	**22,570**	**15,446**	**289**
Future income tax expense	4,184	4,252	18
Income before non-controlling interest	**18,386**	**11,194**	**271**
Non-controlling interest	5,115	4,744	108
Net income	**$ 13,271**	**$ 6,450**	**$ 163**
Add:			
Depreciation and amortization	5,586	3,711	97
Future income tax expense	4,183	4,252	18
Non-cash long-term incentive plan	353	-	-
Amortization of acquired leasing costs	67	-	-
In-place lease income adjustments	(19)	-	-
Distributable income	**$ 23,442**	**$ 14,413**	**$ 278**
Units Outstanding	32,392	19,210	15,500
Weighted-Average Units			
– Basic (000s)	26,554	16,628	15,500
– Diluted (000s)	26,692	16,677	15,511
Net Income/Unit			
– Basic (cents)	49.7/49.2*	38.8/37.7*	1.1
– Diluted (cents)	49.5/49.0*	38.7/37.5*	1.1
Distributable Income/Unit			
– Basic (cents)	87.7/86.9*	86.7/83.9*	1.8
– Diluted (cents)	87.3/86.5*	86.4/83.6*	1.8
Distributions/Unit (cents)	68.3	62.7	-

*Includes 2,971,112 special warrants.

Quarterly Summary
(unaudited)

(US$000, except per unit amounts)	First Quarter, 2002	Second Quarter, 2002	Third Quarter, 2002	Fourth Quarter, 2002	First Quarter, 2003	Second Quarter, 2003	Third Quarter, 2003	Fourth Quarter, 2003
Rental Revenues	$ 13,463	$ 14,027	$ 18,144	$ 21,097	$ 21,230	$ 24,268	$ 27,107	$ 29,642
Net Property Income	8,403	8,866	11,012	12,434	11,752	14,051	15,898	17,442
Net Income	1,370	1,726	1,589	1,765	2,435	3,013	3,838	3,985
Distributable Income	2,873	3,350	3,866	4,324	4,274	5,375	6,331	7,462
Units Outstanding (000s)	16,645	16,656	16,681	19,210	22,744	26,041	29,868	32,392
Weighted-Average Units								
– Basic (000s)	16,480	16,647	16,664	16,718	21,626	24,408	29,197	30,855
– Diluted (000s)	16,546	16,736	16,716	16,762	21,632	24,505	29,382	31,095
Net Income/Unit								
– Basic (cents)	8.3	10.4	9.5	10.6/9.5*	11.3/10.8*	12.3	13.2	12.9
– Diluted (cents)	8.3	10.3	9.5	10.6/9.4*	11.3/10.8*	12.3	13.1	12.8
Distributable Income/Unit								
– Basic (cents)	17.4	20.1	23.2	26.0/23.2*	19.8/19.0*	22.0	21.7	24.2
– Diluted (cents)	17.4	20.0	23.1	25.9/23.1*	19.8/19.0*	21.9	21.6	24.0
Distributions/Unit (cents)	15.2	15.2	15.6	16.7	16.9	16.9	17.1	17.5

*Includes 2,971,112 special warrants.

The only significant variations in the financial results for the year ended December 31, 2003 versus the year ended December 31, 2002 were due to the acquisition of properties and their impact on operations as well as the equity offerings and the resulting repayments of the acquisition facility. The long-term nature of leases and debt adds stability and results tend to be consistent and predictable.

Consolidation

All properties owned by the REIT through IPC US, except the Wanamaker building, are 100% consolidated. Where partners exist, their portion of income and net assets is shown as non-controlling interest. The Wanamaker Building is proportionately consolidated because IPC US does not have unilateral authority over certain decisions. In this case, both the balance sheet and income statement report IPC US's 60% share in the property. As a result, no non-controlling interest amount relates to this property.

Net Property Income

	Year Ended December 31, 2003			Year Ended December 31, 2002		
(US$000)	Total	Same Store*	Acquisitions	Total	Same Store*	Acquisitions
Rental revenues	$ 102,247	$ 55,947	$ 46,300	$ 66,731	$ 55,222	$ 11,509
Operating costs	43,104	22,448	20,656	26,016	20,897	5,119
Net property income	**$ 59,143**	**$ 33,499**	**$ 25,644**	**$ 40,715**	**$ 34,325**	**$ 6,390**

*Same Store includes only properties owned during all the above reporting periods.

Rental Revenues

Rental revenues were $102.2 million for the year ended December 31, 2003 ("2003") compared to $66.7 million for the year ended December 31, 2002 ("2002"). The majority of the 53.2% increase in rental revenues was attributable to new acquisitions since the IPO. Over 45% or $46.3 million of total revenues was the result of new acquisitions. For properties that were owned for the two years ended December 31, 2003 ("same store"), which is also the IPO or Initial Portfolio, rental revenues increased by $725,000 from $55.2 million in 2002 to $55.9 million in 2003 which is due mainly to higher recoveries resulting from higher operating costs. In addition, base rents are higher despite a slight drop in occupancy rate for same store. However, some tenants opted for lower rents with respectively smaller inducements package as their response to economic conditions. These increases are offset by slightly lower percentage of sales rent.

Although we experienced negative absorption in some markets, the REIT was able to maintain consistent rental revenues despite a slight decrease in average occupancy for the Initial Portfolio. The REIT is well positioned with the available space to be competitive in an upturn in the market. There is a trend going into 2004 of the existing tenant base absorbing blocks of available space. Management is cautiously optimistic regarding lease-up of available space in the coming year.

Operating Costs

Total property operating costs increased to $43.1 million for 2003 from $26.0 million in 2002. The majority of the increase was attributable to new acquisitions. Nearly 48% or $20.7 million of total operating costs is the result of new acquisitions. The increase in same-store operating costs from $20.9 million in 2002 to $22.4 million in 2003 is primarily attributed to increases in snow removal costs, property insurance and utility costs.

Snow removal costs increased for 2003 over 2002. Costs incurred are related to the severity of the weather conditions and are not predictable and are not necessarily indicative of a trend.

IPC US has experienced increased costs for insurance coverage. These increases reflect the combined impact of September 11 losses, the uncertainty over another massive catastrophe, and an already tight insurance market. The real estate industry was the most adversely affected industry after the terrorist attacks. While new capital and a return by carriers to individual account underwriting have led to more competition and rate stabilization in the property area, the primary casualty market has been characterized by continued rate increases and fewer choices due to existing carriers exiting the market. Management believes these increased insurance costs will remain high for the foreseeable future.

Utility costs for the office portfolio increased in 2003 over 2002 due to an increase in the underlying price of the commodity and in some areas exacerbated by an extremely cold winter. IPC US is prudently taking steps to mitigate the price and usage increases in various ways according to the available type of power source and building system design. Examples of these measures are that in Lexington, Kentucky, IPC US took advantage of the recent deregulation of natural gas and signed a new contract while gas prices were down. In Worchester, Massachusetts, IPC US utilized energy saving measures for electricity, sponsored by the local utility company. In Philadelphia, Pennsylvania, IPC US is reconfiguring how it supplies power to heat water to reduce the consumption of steam.

Under the terms of leases, part of these operating expense increases was recovered from tenants.

Net Property Income

Net property income was $59.1 million for 2003 compared to $40.7 million for 2002. The increase was mainly the result of the new acquisitions made since the third quarter in 2002. Net property income attributable to the new acquisitions in 2003 was $25.6 million compared to 2002 of $6.39 million. Net property income on a same store basis was $33.5 million in 2003 compared to $34.3 million in 2002. The higher operating costs, referred to above, more than offset the higher rental revenues, as some of these higher costs cannot be recovered as a result of vacancies and the terms of certain leases resulting in an $826,000 decline in net property income for 2003.

Interest Expense

Interest expense was $27.3 million in 2003 compared to $19.6 million in 2002. Interest expense was higher because of $169.5 million of additional mortgages for acquisitions. Most of the interest expense consists of interest on secured mortgages on the Properties. The weighted-average interest rate on the mortgages on December 31, 2003 was 6.7%, an improvement over the 7.1% on December 31, 2002. Interest of $857,200 (2002 – $889,000) relates to the acquisition facility used to fund the equity investments in the Properties acquired.

General and Administration Expenses

General and administrative expenses rose to $3.03 million in 2003 from $1.45 million in 2002 due to the increase in size of the REIT which result in increased audit fees, legal fees, director and officers' insurance premiums, compliance filing fees, U.S. capital taxes and the long-term incentive plan. Given the changing continuous disclosure and reporting requirements applicable to public entities, it is reasonable to conclude these costs will continue to escalate by rates exceeding general inflation.

Depreciation

The REIT depreciates its buildings on a 5%, 40-year sinking fund basis. Under this method, depreciation is charged to income at an amount that increases annually so as to depreciate buildings over a 40-year estimated useful life.

Change in Accounting Policy – 2004 Amortization and Depreciation

Effective January 1, 2004, the REIT changed its accounting policy for the depreciation of buildings. Depreciation changed to the straight-line method from the current sinking fund method which is no longer permitted. This change will be applied prospectively. The result of this accounting change will increase depreciation and amortization expense by approximately $7 million in 2004. However, this increase will not affect the calculation of distributable income as depreciation gets added back in determining distributable income.

Net income

(US$000, except per unit amounts)	Year Ended December 31, 2003	Year Ended December 31, 2002
Net Income	**$ 13,271**	**$ 6,450**
Net Income/Unit – Basic (cents)	49.7/49.2*	38.8/37.7*
Net Income/Unit – Diluted (cents)	49.5/49.0*	38.7/37.5*
Weighted-Average Units – Basic (000s)	26,554	16,628
Weighted-Average Units – Diluted (000s)	26,692	16,677

*Includes 2,971,112 special warrants.

Net income for 2003 was $13.3 million compared to $6.45 million in 2002. This translates into 49.7 cents per basic and 49.5 cents per diluted unit compared to 38.8 cents per basic and 38.7 cents per diluted unit for 2002. Net income per unit does not treat the special warrants described below as units issued. If the special warrants were reflected as units, the net income per unit would have increased from 37.7 cents in 2002 to 49.2 cents in 2003 and from 37.5 cents in 2002 to 49.0 cents in 2003 on a basic and diluted basis, respectively. The increase was mainly due to acquisitions since the third quarter of 2002.

> On November 1, 2002, the REIT issued 2,971,112 special warrants that are not included in units outstanding as they were not converted into units until January 29, 2003. However, payments were made to these special warrants as if they were units.

Distributable Income

Distributable income is not a Canadian GAAP measure and there is no standardized measure of distributable income. Distributable income represents net income of the REIT and its consolidated subsidiaries, as determined in accordance with GAAP, subject to certain adjustments as set out in the Declaration of Trust, including adding back depreciation and amortization (excluding amortization of leasing costs), future income tax expense and excluding any gains or losses on the disposition of any asset, future income tax benefit and any other adjustments determined by a majority of the Trustees in their discretion. As a result of the change in accounting for acquisitions and introduction of a long-term incentive plan, the Trustees have also determined to add back amortization of acquired leasing costs, the in-place lease income adjustments and long-term incentive plan expense in determining distributable income.

(US$000, except per unit amounts)	Year Ended December 31, 2003	Year Ended December 31, 2002
Net income	$ 13,271	$ 6,450
Add:		
Depreciation and amortization **	5,586	3,711
Future income tax expense	4,184	4,252
Non-cash long-term incentive plan	353	-
Amortization of acquired leasing costs	67	-
In-place lease income adjustments	(19)	-
Distributable Income	**$ 23,442**	**$ 14,413**
Distributable Income/Unit – Basic (cents)	87.7/86.9*	86.7/83.9*
Distributable Income/Unit – Diluted (cents)	87.3/86.5*	86.4/83.6*
Weighted-Average Units – Basic (000s)	26,554	16,628
Weighted-Average Units – Diluted (000s)	26,692	16,677

*Includes 2,971,112 special warrants.
**Excludes amortization of leasing costs

Distributable income for 2003 was $23.4 million compared to $14.4 million in 2002. This translates to 87.7 cents per basic and 87.3 cents per diluted unit for 2003 compared to 86.7 cents per basic and 86.4 cents per diluted unit for 2002. Distributable income per unit does not treat the special warrants described below as units issued. If the special warrants were reflected as units, the distributable income per unit would have increased from 83.9 cents in 2002 to 86.9 cents in 2003 and from 83.6 cents in 2002 to 86.5 cents in 2003 on a basic and diluted basis, respectively. The increase in distributable income is the result of acquisitions since the third quarter of 2002 and a decline in non-controlling interest partially offset by the issuance of 9.6 million additional units during the year. Distributable income per unit will fluctuate depending upon when equity is raised and/or when properties are acquired.

> On November 1, 2002, the REIT issued 2,971,112 special warrants that are not included in units outstanding as they were not converted into units until January 29, 2003. However, payments were made to these special warrants as if they were units.

Distributions to Unitholders

Total distributions paid to Unitholders during 2003 were $18.7 million compared to 2002 of $10.9 million. The higher distributions were the result of increased distributions per unit and nearly 13.2 million more units outstanding. 79.6% of the REIT's distributable income was paid out to Unitholders in 2003 compared to 75.8% in 2002. The payout ratio will also fluctuate depending upon when equity is raised and/or when properties are acquired. Distributions per unit were 68.3 cents in 2003 and 64.7 cents in 2002 (2.0 cents were for the 12 days in 2001).

Liquidity and Capital Expenditures

Funds from operations for 2003 amounted to $29.0 million (2002 – $19.6 million). Again, the main cause for the increase is cash flow from the acquisitions made since Q2 2002. On December 31, 2003, the REIT had cash balances of $35.8 million (December 31, 2002 – $26.4 million). Of this, unrestricted cash was $14.3 million (December 31, 2002 – $12.9 million).

Cash flow generated from operating the portfolio represents the primary source of liquidity to service debt, to fund building improvements and leasing costs and to fund distributions on units.

Cash flow from operations is dependent upon, among other things, occupancy levels of properties owned, rental rates achieved, collectability of rent, efficiencies in operations and the costs involved to lease or renew tenant space.

The REIT does not intend to repay maturing debt from cash flow, but with proceeds from refinancing such debt. The REIT raises new equity by issuing units to finance new acquisition or investment activities. To date, the REIT has not disposed of any property.

Restricted Cash

Many of the REIT's mortgages contain requirements that the property owners contribute on a monthly basis to cash reserves. These cash reserves can be drawn upon for payment of taxes, insurance, maintenance and repair costs, leasing costs, and in certain cases, specified capital expenditures anticipated at the time of financing. At December 31, 2003, restricted cash was $21.5 million (December 31, 2002 – $13.5 million).

Long-Term Acquisition Facility

The REIT has a $65 million long-term bank facility for acquisitions, working capital and for other general purposes that is due in October 2006 and includes extension terms for a further two years. The balance of the long-term acquisition facility outstanding at December 31, 2003 was $38.9 million compared to $7.31 million on December 31, 2002. The increase in the facility balance is the result of funding acquisitions made during 2003, especially for the three buildings in November 2003. This facility is available to meet ongoing operations and capital expenditures but is intended mainly to finance acquisitions.

Rental Properties

Rental properties consist of the 31 income producing properties that IPC US owns. Through acquisitions, the original portfolio of 23 office and retail properties grew by eight, three in 2002 and five in 2003. In addition, IPC US exercised its option to purchase the Oxmoor land lease for $5.38 million due in 2008. As a result of the purchase, this land lease is accounted as a capital lease with the purchase price included in other liabilities. Lease payments are recorded as interest expense.

Rental properties totaled $735.2 million on December 31, 2003 compared to $484.2 million on December 31, 2002. The increase since the end of 2002 was the result of purchasing the Oxmoor land lease and five buildings purchased during the year.

(US$000)	2003	2002
Beginning of Year, January 1	**$ 484,235**	**$ 342,080**
Acquisitions:		
Arch Street	-	73,375
McDonald Investment Center	-	45,701
Bank One Plaza	-	21,650
11 Stanwix Street	39,643	-
Wanamaker Building	74,345	-
Oxmoor Land	5,376	-
Royal Carribean / DeVry	49,035	-
Energy Centre	75,408	-
Add:		
Capital Expenditures	2,796	2,294
Leasing Costs	3,531	3,311
Acquired Leasing Costs	6,383	-
Tenant Relationships	470	-
Less: Depreciation and Amortization	(5,994)	(4,176)
End of Year, December 31	**$ 735,228**	**$ 484,235**

Capital Expenditures and Leasing Costs

During the year, the REIT spent $2.80 million on capital expenditures (2002 – $2.29 million) and $3.53 million on tenant inducements and leasing costs (2002 – $3.31 million). Since the IPO, $1.70 million has been spent on identified capital expenditures and leasing costs for which cash was left on deposit at the time of the IPO. This leaves $260,000 of identified capital expenditures and leasing costs to be completed for which cash was left on deposit at the time of the IPO.

Subsequent Events – New Partners

An existing partner purchased a 14% equity interest in the Florida properties for $2,433,000. The partner will also pay a one-time advisory fee of $70,000 on closing and an annual asset management fee of $25,000. In addition, another current partner purchased a 12.14% equity interest in Energy Centre for $3,500,000. The partner will also pay a one-time advisory fee of $95,000 on closing and an annual asset management fee of $35,000. These transactions closed in March 2004.

Change in Accounting Policy – 2003 Purchase Price Allocation

In accordance with new accounting standards, effective for acquisitions after September 12, 2003, the purchase price of real estate is allocated to land, building, and intangibles, such as the value of above and below market leases ("in-place lease income adjustments"), estimated tenant improvements and origination costs ("acquired leasing costs") associated with the in-place leases and the value of tenant relationships, if any.

Acquired leasing costs are amortized as an expense over the remaining life of the lease (or charged against earnings if the lease is terminated prior to its contractual expiration date). The REIT estimates the fair value of acquired leasing costs on properties purchased after September 12, 2003 to be $6.38 million. Amortization was $67,000 for the year ended December 31, 2003. For 2003, the tenant relationships value was estimated to be $470,200.

Accounts Receivable

Accounts receivable consists of rent receivable, expense recoveries, percentage rent, partnership receivable, and straight-line rent receivable. At December 31, 2003, the accounts receivable balance was $11.4 million (December 31, 2002 – $3.41 million). With the increase in the number of tenants from the acquisitions, both rent receivable and expense recoveries have increased at December 31, 2003 as compared to December 31, 2002. The largest contributor to the increase was the addition of $3.06 million in straight-line rent receivable.

Future Income Tax Asset and Liability

The future income tax asset and liability result from deductible or taxable temporary differences in the subsidiaries of the REIT. The REIT's U.S. subsidiaries are subject to tax on their consolidated taxable income at a rate of 40%. Canadian based corporate subsidiaries are subject to tax on their taxable income under the Income Tax Act (Canada) at rates between 37% and 40%. At December 31, 2003, the subsidiaries of the REIT had accumulated non-capital losses available for carryforward for income tax purposes of $41,157,000 (December 31, 2002 – $31,407,000). These losses expire between 2018 and 2023. The benefit relating to all of the losses has been recognized as a future income tax asset, which at December 31, 2003 was $16.8 million (December 31, 2002 – $12.8 million). The resultant liability balance at December 31, 2003 was $30.1 million (December 31, 2002 – $22.0 million).

Long-Term Debt

The long-term debt represents mortgage balances on real estate assets of the REIT. The long-term debt is recourse only to individual properties representing substantially all the real estate, assignments of all leases and certain restricted deposits. Long-term debt at December 31, 2003 was $476.2 million compared to $311.0 million at December 31, 2002. Long-term debt increased by $169.5 million as a result of the five buildings purchased in 2003. Regular amortization resulted in paying down $4.31 million in mortgages.
Long-term debt is due as follows:

(Amounts are in US$000)	2004	2005	2006	2007	2008	Afterwards	Total
	$ 6,786	$ 7,716	$ 11,245	$ 8,811	$ 189,709	$ 251,902	$ 476,169
	1.4%	1.6%	2.4%	1.8%	39.8%	53.0%	100.0%

In 2008, through regular amortization, $7.00 million of long-term debt is due and $182.7 million that is due in June 2028 is intended to be refinanced. While the debt is not due in 2008, if not repaid that year, interest on that debt will increase by 2%. Management anticipates refinancing this debt in 2008. The overall weighted average term-to-expected repayment date is 7.45 years.

At December 31, 2003, 91.9% of the REIT's total debt had fixed rates and the balance was at floating rates, consisting mainly of the long-term acquisition facility. Management will prudently manage the interest rate risk to ensure the REIT will not be subject to large interest rate increases by generally employing fixed-rate debt. The REIT will generally have some floating-rate debt in order to take advantage of low floating rates currently available. The weighted average interest rate on long-term debt is 6.69% (December 31, 2002 – 7.12%).

The fair value of long-term fixed-rate debt has been determined by discounting the cash flows of these obligations using the year end market rate for debt of similar term and credit risks. Based on these assumptions, their fair value has been determined to be approximately $486,400,000 at December 31, 2003 (December 31, 2002 – approximates the carrying value).

Consolidated indebtedness was 62.0% at December 31, 2003 compared to 57.8% at December 31, 2002. This is well within the REIT's target of 60% to 65%. By its Declaration of Trust, the REIT is limited to an overall indebtedness ratio of 70%. Indebtedness ratio is defined as total debt divided by total adjusted assets (total assets plus accumulated depreciation and the unrecorded fair value increase at the REIT's IPO of $17.1 million).

(US$000, except % amounts)	December 31, 2003	December 31, 2002
Total Assets	$ 803,105	$ 529,878
Adjustments	27,914	20,677
Total Adjusted Assets	$ 831,019	$ 550,555
Long-Term Debt	$ 476,169	$ 310,965
Acquisition Facility	38,912	7,309
Total Debt	$ 515,081	$ 318,274
Indebtedness Ratio	**62.0%**	**57.8%**

Accounts Payable and Accrued Liabilities

These liabilities represent normal trade payables resulting from operating real estate properties, including but not limited to hydro, water, property taxes, maintenance, salaries and wages, etc. As a result of the five additional properties in 2003, these liabilities have increased. At December 31, 2003, the accounts payable and accrued liabilities balance was $19.3 million (December 31, 2002 – $13.0 million).

Other Liabilities

Long-Term Incentive Plan ("LTIP")

Under the plan, bonus awards will be made by the Board of Trustees for a portion of recurring distributable income in excess of a 10.5% return on unitholders' equity. Deferred units ("Deferred Units") may be granted at the discretion of the Trustees to senior officers and full-time employees of the REIT and its subsidiaries in lieu of all or part of their annual cash bonus awards under the plan. In addition, Trustees of the REIT are entitled to elect to receive all or part of their Trustee fees in Deferred Units. An individual who holds Deferred Units will receive additional Deferred Units when the REIT pays distributions.

In February 2004, the Board of Trustees approved bonus awards of $1.06 million and granted 128,954 Deferred Units in respect of the year ended December 31, 2003, subject to approval of the LTIP by Unitholders at the Annual and Special Meeting. The Deferred Units granted will vest as to one-third immediately and as to one-third on each of December 31, 2004 and December 31, 2005. Participants are only permitted to redeem all Deferred Units upon cessation of employment. Payment will be satisfied solely through the issue of units of the REIT.

In-Place Lease Income Adjustments

In-place lease income adjustments represent value of the above and below market leases which are amortized and recorded as either an increase (in the case of below market leases) or a decrease (in the case of above market leases) to rental income over the remaining term of the associated lease. The in-place lease income adjustments are amortized over the expected term of the relationship, which includes an estimated probability of the lease renewal, and its estimated term. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off.

For 2003, the in-place lease income adjustments are $1.72 million, recorded in other liabilities as the leases were below market value. Amortization into rental revenues was $19,000 for 2003.

Non-Controlling Interests

Non-controlling interest is comprised of PRF's 11.0% (December 31, 2002 – 23.0%) economic interest in the underlying properties of IPC US represented by its 51% equity interest in IPC US ("non-controlling interest in IPC US") and the 11% minority partner in the 1650 Arch Street property and the 20% minority partner in the 11 Stanwix Street property ("non-controlling interest in various US properties"). Non-controlling interests were $34.8 million at December 31, 2003, a decrease from $47.6 million at December 31, 2002.

Non-controlling interest in IPC US on December 31, 2003 was $28.6 million, a decrease from December 31, 2002 when it was $44.7 million. In May 2003, non-controlling interest in IPC US decreased by $23.9 million resulting from the settlement of the debentures due in 2008 ("2008 Debentures") and a subsequent investment of $7.0 million into IPC US.

Non-controlling interest in various US properties was $6.17 million on December 31, 2003 compared to $2.90 million on December 31, 2002. The increase is the result of the 20% minority partner at 11 Stanwix Street.

The income allocated to non-controlling interests in IPC US is calculated using a weighted average of 15.4% for 2003 and 24.6% for 2002 on the net income after adding back depreciation and amortization (excluding amortization of leasing costs), future income tax expense, long-term incentive plan expense, acquired leasing costs and in-place lease adjustments and consistent with the calculation of Distributable Income.

Non-controlling interest expense amounted to $5.12 million in 2003 compared to $4.74 million in 2002. The increase in non-controlling interest over the same period of 2002 was the result of several factors including higher income and an addition of a minority partner at 11 Stanwix Street. This was offset by a reduction in PRF's economic interest in IPC US.

Equity

By the end of 2003, the REIT had raised $118.4 million of new equity since the IPO, including $74.4 million in 2003.

On January 29, 2003, special warrants issued in a private placement for $20.1 million on November 1, 2002 were converted into 3,172,758 units of the REIT.

On January 31, 2003, the underwriters exercised their over-allotment option with respect to the public offering completed on December 30, 2002 and another 330,000 units were issued resulting in net proceeds of $2.02 million.

On May 16, 2003, the REIT completed its second private placement by issuing 3,272,000 units at $6.85 per unit. Net proceeds of $22.4 million were raised with no commissions payable. In addition, the REIT settled the 2008 Debentures in the amount of $23,944,000. $7.0 million of the 2008 Debentures were converted into $7.0 million of equity in IPC Realty Limited, the parent of IPC US. The balance was redeemed for cash. The economic interest in IPC US represented by the $16.9 million of 2008 Debentures was equivalent to issuing 2,647,000 units of the REIT at the original IPO price of $6.40 per unit. By issuing the same number of units in this private placement at $6.85 per unit compared to $6.40 per unit, a $1.20 million cash surplus to the REIT arose with no dilution in number of units and equivalent units issued. Under the terms of shareholders' agreements and other agreements, the 2008 Debentures and equity held by PRF were notionally converted into equivalent units for purposes of distributions. Under the settlement transaction, the aggregate number of units and equivalent units remained unchanged and the 2,647,000 equivalent-units representing the 2008 Debentures redeemed for cash became part of the public float of the REIT.

This transaction simplified the REIT's structure, increased the equity portion of PRF's investment, raised additional cash of $5.4 million and increased the public float.

On July 15, 2003, the REIT closed another equity offering. The REIT issued 3,300,000 units in a bought deal with a syndicate of underwriters at $7.65 per unit and the underwriters acquired an additional 495,000 units on the same terms as the offering to cover over-allotments closed on July 28, 2003. Net proceeds from the offering and the over-allotment were $27.5 million.

On November 26, 2003, the REIT issued to the public, on a bought deal basis, 2,500,000 units from treasury at a price of $8.00 per unit. Net proceeds from the offering were $18.9 million.

The money raised from these offerings were used to pay down amounts borrowed by IPC US under its acquisition facility to finance recent acquisitions.

The distribution reinvestment plan ("DRIP") has been very popular with investors. It began in May 2002 and 4.7% of the units outstanding, on a weighted average basis, have participated since inception. In 2003, $808,700 (2002 – $416,900) in cash was retained resulting in 112,371 units (2002 – 64,852 units) being issued. Since inception, this has helped to raise $1.23 million in additional equity. The weighted average DRIP price in 2003 was $7.20 (2002 – $6.43; since inception – $6.92) per unit. This includes the 3% discount that DRIP investors obtain for participating. The gross price in 2003 without the discount would have been $7.41 (2002 – $6.62; since inception – $7.12).

Subsequent Events

On March 9, 2004, the REIT entered into an agreement with a syndicate of underwriters to issue to the public, on a bought deal basis, 3,550,000 units from treasury at a price of US$8.55 per unit. The REIT also granted the underwriters an option, exercisable in whole or in part prior to closing of the financing, to purchase up to an additional 532,500 units, at the same offering price. Should the option be fully exercised, the gross proceeds of the financing will be $34.9 million. Closing of the offering is expected to occur on April 8, 2004, and is subject to regulatory approvals. PRF has also agreed to invest $4.0 million ($4.5 million if the underwriters' option is exercised) into IPC Realty Limited to maintain its economic interest. Proceeds from the offering and PRF's investment will be used to repay the long-term acquisition facility, fund future acquisitions and for use in normal operations.

Critical Accounting Estimates

The REIT's significant accounting policies are described in Note 2 to the Consolidated Financial Statements. Policies most subject to estimation and Management's judgement are:

Purchase Price Allocation

For acquisitions made after September 12, 2003, estimation and judgement were exercised for the following:

- estimate the value of the building "as if vacant" as of the acquisition date;
- allocate the balance of the purchase price among land, site improvements and building;
- allocate the value of the above and below market leases to the intangible assets;
- calculate the value and associated life of the tenant relationships, if any; and
- estimate the fair value of the tenant improvements and leasing commissions

Fair Value of Long-Term Debt

The fair value of long-term fixed-rate debt has been determined by discounting the cash flows of these obligations using the year end market rate for debt of similar term and credit risks.

Impairment of Assets

CICA Handbook Section 3063 requires the use of a two-step process for determining when an impairment exists and measuring the amount of the impairment. An asset is deemed to be impaired if its carrying amount exceeds the sum of the undiscounted cash flows expected to result from the direct use over its holding period and eventual disposition of the property. When impairment exists, the impaired asset is written down to its estimated fair value.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the REIT, including the following:

Property ownership risk

The REIT, through its interest in IPC US, indirectly owns real property. All real property investments are subject to elements of risk. General economic conditions, local real estate markets, supply and demand for leased premises and various other factors affect such investments.

Interest rate risk

The REIT limits its exposure to interest rate risk by seeking long-term mortgages which bear fixed rates to finance its acquisitions. The REIT mitigates the interest rate risk by attempting to stagger maturities to minimize the amount maturing in any one year.

Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulties and be unable to fulfill their lease commitments. The REIT mitigates the risk of credit loss by reviewing each prospective tenant's credit history before signing new leases and conducting regular reviews of its existing tenants' credit performance. Currently, no non-government tenant represents more than 3.33% of total revenues.

Lease rollover risk

Lease rollover risk arises from the possibility that IPC US may experience difficulty renewing leases as they expire or in releasing space vacated by tenants upon lease expiry.

Management attempts to stagger the lease expiry profile so that the REIT is not faced with disproportionate a mounts of space expiring in any one year. Management further mitigates this risk by maintaining a diversified geographic portfolio mix and by avoiding the most volatile markets.

Tax related risk factors
There can be no assurance that Canadian or U.S. income tax laws and their treatment of mutual fund trusts will not be changed in a manner that adversely affects Unitholders.

There can be no assurance that United States tax provisions, upon which the REIT and IPC US rely in order to claim exemption from United States withholding tax in respect of interest payments by IPC US to IPC Investments, LLC and to claim a deduction by IPC US of interest paid to IPC Investments, LLC ("Investments LLC") in computing its income, will not be altered in the future. The REIT has received advice from its U.S. tax counsel that interest payments on the Investments LLC loan should be deductible for U.S. federal income tax purposes and not subject to U.S. withholding tax. While there can be no assurance that the Internal Revenue Service will not take a contrary position, the REIT believes its position should prevail in such circumstances. A successful challenge of either position would have an adverse effect on the cash flow of the REIT available for distribution to Unitholders.

Land leases
The REIT's exposure to land leases relates to an interest on property located on leased land. The land leases are subject to periodic rate re-sets that may fluctuate and may result in significant rental rate adjustments. Management mitigates this risk by limiting the use of land leases for its properties. One land lease was purchased in 2003 further mitigating this risk.

Environmental matters
The REIT is subject to various United States federal, state and municipal laws relating to environmental matters. Such laws provide that the REIT or its Subsidiaries could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect the REIT's ability to sell such real estate or to borrow using such real estate as collateral and could potentially result in claims against the owner by private plaintiffs. Notwithstanding the above, the REIT is not aware of any material non-compliance with environmental laws at any of the Properties. The REIT is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the Properties or any pending or threatened claims relating to environmental conditions at the Properties. To mitigate the environmental risk, it is the REIT's operating policy to obtain a Phase I environmental assessment, conducted by an independent and experienced environmental consultant, prior to acquiring a property and to obtain Phase II environmental assessments where recommended in the Phase I environmental assessment. Phase I assessments for the Initial Portfolio were obtained at the IPO.

OUTLOOK

While the past year was difficult, the REIT's Portfolio remained relatively stable, and in fact improved despite the difficulties. While occupancy dropped on a same store basis, base rents increased. Early indications from tenant activity within the Portfolio are quite positive.

The U.S. office market has moved into the "recovery room." The market has experienced a lot of stress on the leasing side, but the investment side remains surprisingly healthy. The industry has been a model of stability through the recession and jobless recovery.

Stability of the REIT's Portfolio is further enhanced by the acquisitions made since the IPO. Acquisitions must meet a number of criteria, most of which relate to reducing risks and increasing stability of income. By focusing its acquisition efforts on quality properties in good markets with long-term leases and by concentrating on credit quality tenants, cash flow stability is achieved. The REIT will continue to seek accretive acquisitions with a view to growing distributable income and Unitholder value.

The REIT has successfully diversified its Portfolio by entering into four new markets. This allows the REIT to further reduce risks and allows for growth in these new markets to leverage off its existing management infrastructure and to achieve economies of scale. While growth will continue in the REIT's existing markets, this will not preclude the REIT from seeking acquisitions in new markets.

While Management is cautiously optimistic for the up-coming year, they will continue to be proactive and prudent in ensuring risk is maintained at a manageable level such that during difficult times the Properties are stable despite economic conditions and will provide Unitholders with a continued steady stream of cash flow.

Additional information relating to the REIT (including its AIF) is available on SEDAR at www.sedar.com.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements relating to the REIT's operations and the environment in which it operates that are based on the REIT's expectations, estimates, forecast and projections. These statements are not guarantees of future performance and involve risks and uncertainties expressed in those forward-looking statements. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. The REIT undertakes no obligation to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances.

Management's Responsibility for Financial Information

Management of the REIT is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and certain industry-specific accounting principles. The preparation of the consolidated financial statements necessarily involves the use of estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information presented in the Annual Report is consistent with the consolidated financial statements.

To discharge its responsibility for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting controls which provide reasonable assurance that the financial records are reliable and form a proper basis for timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the REIT recognizes that the relative costs of maintaining these controls should not exceed their expected benefits. Management further ensures the equity of the financial records through careful selection and training of personnel and the adoption and communication of financial and other relevant policies.

The Board of Trustees discharges its responsibilities with respect to the consolidated financial statements primarily through the activities of its Audit Committee, which is composed of Trustees who are independent from management of the REIT. This Committee meets with management and with the REIT's independent auditors to discuss audit, internal control, accounting policies and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Trustees.

The consolidated financial statements have been audited by Deloitte & Touche LLP and their report is presented herein.

Vinay Kapoor
President and Chief Executive Officer

Gary Goodman
Executive Vice President and Chief Financial Officer

Toronto, Ontario
March 29, 2004

To the Unitholders of IPC US Income Commercial Real Estate Investment Trust

We have audited the consolidated balance sheets of IPC US Income Commercial Real Estate Investment Trust (the "REIT") as at December 31, 2003 and 2002 and the consolidated statements of income, unitholders' equity and cash flows for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the REIT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the REIT as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years ended December 31, 2003 and 2002 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
March 29, 2004

Consolidated Balance Sheets

(all amounts in thousands of U.S. dollars)	December 31, 2003	December 31, 2002
ASSETS		
Rental properties (Note 3)	$ 735,228	$ 484,235
Cash and cash equivalents (Note 4)	35,807	26,420
Future income tax asset (Note 9)	16,833	12,845
Accounts receivable	11,541	3,410
Prepaid expenses and other assets (Note 5)	3,696	2,968
	$ 803,105	$ 529,878
LIABILITIES		
Long-term debt (Note 6)	$ 476,169	$ 310,965
Long-term acquisition facility (Note 7)	38,912	7,309
Accounts payable and accrued liabilities	19,344	13,005
Other liabilities (Note 8)	9,217	1,187
Future income tax liability (Note 9)	30,134	21,962
	573,776	354,428
Commitments, contingencies and guarantees (Note 16)		
Non-controlling interests (Note 14)	34,796	47,553
UNITHOLDERS' EQUITY (Note 13)		
Unitholders' equity	194,326	108,820
Special warrants	-	19,303
Cumulative translation gain (loss)	207	(226)
	194,533	127,897
	$ 803,105	$ 529,878

The accompanying notes are an integral part of the financial statements.

Approved by the Trustees

Donald S. Macdonald
Trustee

Aladin Mawani
Trustee

(all amounts in thousands of U.S. dollars, except per unit amounts)	Year Ended December 31, 2003	Year Ended December 31, 2002
Rental revenues (Note 11)	$ 102,247	$ 66,731
Operating costs	43,104	26,016
Net property income	59,143	40,715
Interest expense	27,332	19,578
Interest and management fee income	(474)	(283)
General and administrative expense (Note 12)	3,034	1,446
Depreciation and amortization	6,681	4,528
	36,573	25,269
Income before income taxes and non-controlling interest	22,570	15,446
Future income tax expense (Note 9)	4,184	4,252
Income before non-controlling interest	18,386	11,194
Non-controlling interest (Note 14)	5,115	4,744
Net income	$ 13,271	$ 6,450
Basic and diluted net income per unit (Note 17)	$ 0.50	$ 0.39

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Unitholders' Equity

(all amounts in thousands of U.S. dollars)	Year Ended December 31, 2003	Year Ended December 31, 2002
Unitholders' equity, beginning of the year	$ 108,820	$ 91,363
Changes during the year		
Net income	13,271	6,450
Distributions to unitholders	(18,656)	(10,926)
Distributions reinvested	809	417
Units issued	73,574	23,453
Special warrant conversion	19,303	-
Issue costs	(2,795)	(1,937)
Unitholders' equity, end of the year	$ 194,326	$ 108,820

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

(all amounts in thousands of U.S. dollars)	Year Ended December 31, 2003	Year Ended December 31, 2002
NET INFLOW (OUTFLOW) RELATED TO THE FOLLOWING ACTIVITIES		
Operating		
Net income	$ 13,271	$ 6,450
Items not affecting cash		
Depreciation and amortization	5,994	4,176
Amortization of acquired leasing costs	67	-
Amortization of in-place lease income adjustments	(19)	-
Future income taxes	4,184	4,252
Non-cash long-term incentive plan	353	-
Non-controlling interest	5,115	4,744
Funds from operations	28,965	19,622
Changes in non-cash working capital operating items	(1,393)	2,785
Leasing costs	(3,531)	(3,311)
Deferred financing costs	(1,517)	(1,096)
Amortization of deferred financing costs	620	352
	23,144	18,352
Investing		
Acquisition of rental properties (net of debt assumed)	(208,827)	(123,850)
Building improvements (Note 3)	(2,796)	(2,294)
Other assets	(363)	(272)
Changes in restricted cash	(8,012)	(4,285)
	(219,998)	(130,701)
Financing		
Issue of equity (net of issue costs)	70,779	40,987
Proceeds of long-term debt	129,400	77,000
Repayment of long-term debt	(4,312)	(3,022)
Long-term acquisition facility	31,603	7,309
Other liabilities	5,376	-
Cash distributions to unitholders	(17,244)	(9,489)
Retained from (paid to) non-controlling interest	(862)	6,549
Repayment of 2008 debentures	(16,944)	(3,961)
	197,796	115,373
Effect of exchange rate changes on cash	433	(286)
INCREASE IN CASH AND CASH EQUIVALENTS	1,375	2,738
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	12,904	10,166
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 14,279	$ 12,904
Supplemental Cash flow information		
Cash interest paid	$ 26,601	$ 19,178
Cash income taxes paid	$ 451	$ 36
Building acquisitions - gross	$ 248,938	$ 140,994

The accompanying notes are an integral part of the financial statements.

1. THE REIT

IPC US Income Commercial Real Estate Investment Trust (the "REIT") is an open-ended real estate investment trust that was created pursuant to the Declaration of Trust dated November 8, 2001. The REIT was established under the laws of the Province of Ontario, and began operations on December 20, 2001. The REIT invests in commercial and retail properties in the United States.

2. SIGNIFICANT ACCOUNTING POLICIES

The REIT's accounting policies and its standards of financial disclosure are in accordance with the recommendations of the Canadian Institute of Chartered Accountants ("CICA") and are substantially in accordance with recommendations of the Canadian Institute of Public and Private Real Estate Companies. The more significant of these policies are described below:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries and all partnerships which it controls and its proportionate share of the assets, liabilities, revenues and expenses of its joint venture in the Wanamaker property.

(b) Restricted cash

Restricted cash consists primarily of deposits required under the terms of the fixed rate debt for property taxes, future expected tenant improvements and to fund future expected capital expenditures and repairs.

(c) Rental properties

Rental properties are stated at the lower of cost less accumulated depreciation and amortization and net recoverable amount. Cost includes the original cost of the property, due diligence costs and other direct acquisition-related costs. Net recoverable amount represents the undiscounted estimated future net cash flow expected to be received from the ongoing use and residual worth of the properties.

In accordance with new accounting standards, effective for acquisitions after September 12, 2003, the purchase price of real estate is allocated to land, building, tenant improvements and intangibles, such as the value of above and below market leases, estimated origination costs associated with the in-place leases ("acquired leasing costs"), and the value of tenant relationships, if any.

The values of the above and below market leases are amortized and recorded as either an increase (in the case of below market leases) or a decrease (in the case of above market leases) to rental income over the remaining term of the associated lease. The value associated with in-place leases and tenant relationships are amortized over the expected term of the relationship, which includes an estimated probability of the lease renewal, and its estimated term. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off. The tenant improvements and origination costs are amortized as an expense over the remaining life of the lease (or charged against earnings if the lease is terminated prior to its contractual expiration date).

(d) Depreciation and amortization

Depreciation and amortization has been reflected in the accounts, at the following rates:

Buildings and improvements – 40 years 5% sinking fund
Leasehold properties – 40 years 5% sinking fund
Acquired leasing costs – straight-line over life of leases
Furniture and equipment – straight-line over five to seven years

(e) Deferred costs

Leasing costs, including tenant improvements, inducements and leasing commissions, are deferred and amortized on a straight-line basis over the term of the respective leases. The unamortized balance of leasing costs is included in rental properties.

Financing costs are amortized on a straight-line basis over the terms of the debt to which they relate. The unamortized balance of financing costs is included in prepaid expenses and other assets.

(f) Revenue recognition

In the case of leases where rents vary over the lease term, rents are recognized on a straight-line basis. Percentage rents are recognized when earned. Recoveries from tenants for taxes, insurance, and other operating expenses are recognized as revenues in the period the applicable costs are incurred.

(g) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Reporting currencies and foreign currency translation

The consolidated financial statements have been presented in U.S. dollars as the REIT's assets, liabilities and cash flows are primarily in the United States. Assets and liabilities denominated in other currencies are translated into U.S. dollars at the rate in effect at the balance sheet date. Revenues and expenses are translated at the weighted average rate in effect for the period presented. The REIT's head office operations in Canada are self-sustaining in nature and, as such, cumulative gains and losses arising from the consolidation of the assets and liabilities of these operations are recorded as a separate component of equity.

(i) Income taxes

Income taxes are accounted for using the liability method. Under this method, future income taxes are recognized for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values.

Future income taxes are computed using substantively enacted corporate income tax rates for the years in which the differences are expected to reverse.

(j) Unit option plan

The REIT has a Unit Option Plan (the "Plan") as described in Note 13 (h). The REIT records compensation expense for all unit-based compensation awards using the fair value method. Any consideration paid by employees or Trustees on the exercise of Options or the purchase of Units is credited to Unitholders' Equity. If Units or Unit Options are repurchased from employees or Trustees, the excess of the consideration paid over the carrying amount of the Unit or Unit Option cancelled is charged to Unitholders' Equity.

Under the fair value method, compensation expense for Unit Options is measured at fair value at the grant date using an option pricing model and is recognized over the vesting period.

(k) Long-term incentive plan

The issue of units under this plan is recorded as compensation expense, on a straight-line basis over the vesting period, based on the average closing market price of the REIT units for the three days prior to the date of grant.

3. RENTAL PROPERTIES

	Cost	Accumulated Depreciation and Amortization	December 31, 2003 Net Book Value	December 31, 2002 Net Book Value
Land	$ 77,470	$ -	$ 77,470	$ 48,030
Buildings	614,728	7,411	607,317	394,786
Leasehold properties	38,810	672	38,138	38,406
Leasing costs	6,870	1,353	5,517	3,013
Acquired leasing costs	6,383	67	6,316	-
Tenant relationships	470	-	470	-
	$ 744,731	$ 9,503	$ 735,228	$ 484,235

IPC (US), Inc. ("IPC US") has agreed to purchase the land on which the Oxmoor building in Louisville, Kentucky is constructed in December 2008. The purchase price will be $5,376,000. As a result, the ground lease is treated as a capital lease with the annual payments of $320,000 recorded as interest expense.

Acquired Leasing Costs and Tenant Relationships
GAAP requires that the REIT estimate the fair value of tenant improvements and leasing commissions ("acquired leasing costs") and tenant relationships on properties purchased after September 12, 2003 and amortize the costs over the life of the leases. During the year, acquired leasing costs were estimated to be $6,382,700 and tenant relationships were estimated to be $470,200. For the year ended December 31, 2003, amortization of acquired leasing costs and tenant relationships was $67,000.

Building improvements and leasing costs related to pre-REIT commitments
Included in rental properties is an amount for which cash remained in IPC US at closing of the Initial Public Offering ("IPO") to fund identified capital improvements and committed leasing costs. Approximately $260,000 remains to be spent. There was $245,100 of expenditures during the year ended December 31, 2003 (year ended December 31, 2002 – $1,453,000) related to these items.

4. CASH AND CASH EQUIVALENTS

	December 31, 2003	December 31, 2002
Cash and cash equivalents	$ 14,279	$ 12,904
Restricted cash	21,528	13,516
Cash and cash equivalents	$ 35,807	$ 26,420

5. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2003	December 31, 2002
Prepaid expenses and other	$ 1,335	$ 1,734
Deferred financing costs	2,613	1,096
Other assets	1,059	696
	5,007	3,526
Accumulated depreciation and amortization	(1,311)	(558)
	$ 3,696	$ 2,968

6. LONG-TERM DEBT

	December 31, 2003	December 31, 2002
Fixed-rate debt	$ 473,169	$ 310,965
Floating-rate debt	3,000	-
Total long-term debt	$ 476,169	$ 310,965

The weighted average interest rate on long-term debt is 6.69% (December 31, 2002 – 7.12%).

The floating-rate debt is a three-year loan due in June 2006 at LIBOR plus 250 basis points secured by the Wanamaker retail space.

Repayment Date	Interest Rate	Balance
June 2006	3.64%	$ 3,000
June 2008 (see below)	7.20%	197,803
December 2009	8.31%	16,489
October 2010 (see below)	8.31%	16,849
January 2011	7.99%	30,785
August 2012	6.41%	75,920
June 2013	5.38%	39,000
December 2013	5.59%	87,323
July 2018	4.75%	9,000
	6.69%	$ 476,169

$197.8 million of the fixed-rate debt is due June 2028 (anticipated repayment date June 2008) and $16.8 million is due October 2030 (anticipated repayment date October 2010). If not fully repaid on the anticipated repayment dates, the interest rate will increase by 2%.

Principal repayments are as follows:

2004	$ 6,786
2005	7,716
2006	11,245
2007	8,811
2008	189,709
Thereafter	251,902
	$ 476,169

The maturity schedule is based on the anticipated repayment date even if the maturity date is later. The fair value of long-term fixed-rate debt has been determined by discounting the cash flows of these obligations using the year end market rate for debt of similar term and credit risks. Based on these assumptions, their fair value has been determined to be approximately $486,400,000 at December 31, 2003 (December 31, 2002 – approximates the carrying value). Certain restricted deposits, individual properties representing substantially all the real estate, and assignments of all leases, secure the long-term debt.

7. LONG-TERM ACQUISITION FACILITY

This revolving facility for acquisitions and working capital purposes totals $65 million and is due in October 2006 with two successive 12-month extension options. Interest under this facility is based on the bank's prime rate or LIBOR plus a range of 1.75 – 3.5%. Security for this facility is a pledge of a 49% equity interest in the REIT's U.S. real estate.

8. OTHER LIABILITIES

	December 31, 2003	December 31, 2002
Land purchase agreement	$ 5,376	$ -
Distributions payable	1,790	1,187
In-place lease income adjustments, net	1,698	-
Long-term incentive plan obligation	353	-
Total long-term debt	$ 9,217	$ 1,187

In-Place Lease Income Adjustments

The value of above and below market leases ("in-place lease income adjustments") on properties purchased after September 12, 2003 was estimated to be $1,717,100 below market. For the year ended December 31, 2003, $19,000 was included in rental revenue for amortization of below market leases.

Long-Term Incentive Plan Obligation

On February 24, 2004, the Board of Trustees awarded incentive plan bonuses of $1,060,000 and accordingly approved the granting of 128,954 units in respect of the year ended December 31, 2003, subject to approval of the long-term incentive plan ("LTIP") by unitholders at the Annual General Meeting. The units granted vest one-third immediately and one-third on each of December 31, 2004 and December 31, 2005. Pending approval, $353,300 of the LTIP obligation has been accrued as at December 31, 2003. Once approved, the liability will be transferred to equity.

9. INCOME TAXES

(a) The REIT is an open-end real estate investment trust, governed by the laws of the Province of Ontario. The REIT is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the Trustees of the REIT will make distributions or designate all taxable income earned by the REIT to unitholders and will deduct such distributions and designations for income tax purposes.

(b) The REIT's U.S. subsidiaries are subject to tax on their consolidated taxable income at a rate of 40%. Canadian based corporate subsidiaries are subject to tax on their taxable income under the Income Tax Act (Canada) at rates between 37% and 40%.

(c) At December 31, 2003, the subsidiaries of the REIT had accumulated non-capital losses available for carryforward for income tax purposes of $41,157,000 (December 31, 2002 – $31,407,000). These losses expire between 2018 and 2023. The benefit relating to all of the losses has been recognized in the consolidated financial statements as a future income tax asset.

The provision for income taxes is summarized as follows:

For the year ended:	December 31, 2003	December 31, 2002
Income before income taxes and non-controlling interest	$ 22,570	$ 15,446
Income tax rate based on basic and weighted average rates	36.6%	38.6%
Income tax expense from statutory income tax rate	$ 8,264	$ 5,965
Increase (decrease) in taxes resulting from:		
Tax effect of foreign rate differences	855	230
U.S. operations	(5,329)	(2,159)
Other	394	216
Future income tax expense	4,184	4,252
Current income tax	-	-
Income tax expense	$ 4,184	$ 4,252

The balance of the future income tax asset arises from the following:

	December 31, 2003	December 31, 2002
Benefit from non-capital losses	$ 16,833	$ 12,845

The balance of the future income tax liability arises from the following:

	December 31, 2003	December 31, 2002
Rental properties	$ 29,685	$ 22,807
Long-term debt	914	914
Other	(465)	(1,759)
	$ 30,134	$ 21,962

10. RELATED PARTY TRANSACTIONS

PRF lease arrangements

Pursuant to agreements entered into on closing of the IPO, PRF Holdings Inc. ("PRF"), through a wholly-owned subsidiary, effectively leased 97,864 square feet of vacant space commencing January 1, 2002 and agreed to lease 113,868 square feet of space with leases expiring in 2002 and is responsible for related tenant inducements and leasing costs. As a result of leases entered into which were assumed by IPC US, at December 31, 2003, PRF leased 131,396 square feet. PRF's commitment to lease such space expires in December 2006. The total rent recorded by the REIT under the PRF lease agreements was $1,954,200 for the year ended December 31, 2003 (year ended December 31, 2002 – $1,761,000), net of subleases. Included in accounts receivable at December 31, 2003 is $654,000 (December 31, 2002 – $125,000) related to the PRF lease agreements.

Service agreement

Pursuant to the Services Agreement ("RIDC Services Agreement"), the REIT through IPC Realty Services Inc. ("IPC Services"), a wholly-owned subsidiary, provides general management, administrative and support services to International Property Corporation ("IPC Corp"), formerly Reichmann International Developments Corporation, a company associated with the non-controlling interest. As consideration for the services provided during the first two years of the term of the RIDC Services Agreement, IPC Services receives an annual fee from IPC Corp consisting of its direct and indirect costs plus a mark-up of 5% less $300,000. Commencing in 2004, the fee payable by IPC Corp to IPC Services was to be established bi-annually by negotiation between the parties based on commercially arm's-length terms for similar services with any disagreement to be resolved by binding arbitration. As a result of these negotiations, the fee payable will be $500,000 in 2004 and 2005. The RIDC Services Agreement has an initial term of five years and will be renewed automatically for one-year terms unless either party notifies the other 90 days prior to the expiration of the then current term of its determination not to renew such agreement.

The REIT received $1,371,000 for the year ended December 31, 2003 (year ended December 31, 2002 – $1,404,000) for providing management services. This amount is recorded in general and administrative expense as a recovery of costs.

Included in accounts receivable is $134,300 due from related parties (December 31, 2002 – $33,000). The amounts are non-interest bearing.

Management advisory agreement

Under the terms of the Management Advisory Agreement, IPC Corp provides advisory services to the REIT with respect to: identifying property investment opportunities which meet the investment guidelines set out in the Declaration of Trust; providing the Trustees and the Investment Committee with information; and advice relating to proposed acquisitions and dispositions of properties as well as supervising due diligence conducted in connection with the proposed acquisition of properties.

During the first two years of the term of the Management Advisory Agreement, IPC Corp is entitled to a fee for such services in an amount equal to 0.50% of the gross acquisition cost of any new properties acquired by the REIT and an amount equal to 0.25% of the gross proceeds of disposition of any properties disposed of by the REIT. Commencing in 2004, the fees payable by the REIT to IPC Corp thereunder were to be established bi-annually by negotiation between the Independent Trustees and IPC Corp based on commercially arm's-length terms for similar services, with any disagreement to be resolved by binding arbitration. As a result of these negotiations, there will be no change to the Management Advisory Agreement.

In consideration of its fee for services performed in connection with the REIT's acquisition of property, IPC Corp was paid $1,206,500 for the year ended December 31, 2003 (year ended December 31, 2002 – $657,000) in the aggregate which amounts are recorded as part of the cost of the real property.

11. RENTAL REVENUES

GAAP requires that in circumstances where leases provide for increases in rent during their term that rents be recognized on a straight-line basis. Additional rental revenues resulting from straight-lining of rents in the year ended December 31, 2003 were $3,064,800 (year ended December 31, 2002 – $1,270,600). $4,335,400 in straight-line rent was recorded as accounts receivable at December 31, 2003 (December 31, 2002 – $1,270,600). Rental revenues also includes $19,000 in respect of the in-place lease income adjustment.

12. GENERAL AND ADMINISTRATIVE EXPENSE

For the year ended:	December 31, 2003	December 31, 2002
Trust expenses	$ 1,372	$ 800
Long-term incentive plan	353	-
U.S. head office general and administrative		
Capital taxes	467	17
Other	842	629
	$ 3,034	$ 1,446

13. UNITHOLDERS' EQUITY

Units issued and outstanding

The interests in the REIT are represented by a single class of units which are unlimited in number. Each unit entitles the holder to a single vote and carries the right to participate in all distributions.

The number of units issued and outstanding is as follows:

	Units	Amount
Balance at December 31, 2001	15,500,000	$ 99,200
Issued on over-allotment	1,145,000	7,328
Issued on equity offering	2,500,000	16,125
Issued for reinvested distributions	64,852	417
Balance at December 31, 2002	19,209,852	123,070
Conversion of Special Warrants	3,172,758	19,559
Issued on over-allotment	330,000	2,129
Issued in a private placement	3,272,000	22,413
Issued in bought deals	6,295,000	49,032
Issued for reinvested distributions	112,371	809
Balance at December 31, 2003	32,391,981	$ 217,012

(a) On January 14, 2002, the REIT issued 1,145,000 units for gross proceeds of $7,328,000 pursuant to the over-allotment option in the IPO. $3,961,000 of the 2008 Debentures were repaid from the proceeds and as a result, the REIT's economic interest in IPC Canada increased to 75%

(b) On December 30, 2002, the REIT completed an equity offering of 2,500,000 units at US$6.45 (Cdn$10.00) to raise gross proceeds of $16,125,000

(c) Special Warrants
On November 1, 2002, a private placement of 2,971,112 special warrants (subject to adjustment) was completed. The special warrants were issued for gross proceeds of $20.1 million (US$6.75 per unit). Holders of these special warrants received $496,000 in return of capital while they were issued and outstanding. On January 29, 2003, these warrants were converted into 3,172,758 units of the REIT.

(d) On January 31, 2003, the REIT issued 330,000 units at US$6.45 per unit for gross proceeds of $2,128,500 pursuant to the over-allotment option in the December 30, 2002 equity offering.

(e) On May 16, 2003, the REIT issued 3,272,000 units in a private placement at US$6.85 per unit. Net proceeds were $22,413,000. No commissions were payable.

(f) On July 15, 2003, the REIT issued 3,300,000 units at US$7.65 per unit. On July 28, 2003, the Underwriters also acquired an additional 495,000 units on the same terms as the offering to cover over-allotments. Net proceeds from the offering and the over-allotment were $27,464,300.

(g) On November 26, 2003, the REIT issued 2,500,000 units at US$8.00 per unit. Net proceeds from the offering were $18,887,600

(h) Unit Option Plan
On December 20, 2001, the REIT adopted a Unit Option Plan, which is subject to the rules of The Toronto Stock Exchange. The total number of units in respect of which options may be granted under the Plan may not exceed 1,550,000 Units. The Unit Option Plan provides that at no time shall the number of units reserved for issuance under the Plan exceed 10% of the then outstanding Units. Options are granted at an exercise price of no less than the market price at the time of the grant and have a maximum term of ten years. 1,220,250 options vesting over a one to five year period were outstanding as of December 31, 2003.

During the year, 25,000 units were granted with an exercise price of $8.20 that expires in 2013. There were no options exercised or cancelled during the period. The following options are outstanding at the end of the period:

Exercise Price	Outstanding at December 31, 2001	Granted	Cancelled	Outstanding	Vested
				at December 31, 2002	
$ 6.40	930,000	-	12,000	918,000	528,933
$ 7.10	-	30,000	-	30,000	-
$ 6.54	-	247,250	-	247,250	61,667
	930,000	277,250	12,000	1,195,250	590,600

Exercise Price	Outstanding at December 31, 2002	Granted	Cancelled	Outstanding	Vested
				at December 31, 2003	
$ 6.40	918,000	-	-	918,000	811,200
$ 7.10	30,000	-	-	30,000	6,000
$ 6.54	247,250	-	-	247,250	135,783
$ 8.20	-	25,000	-	25,000	8,333
	1,195,250	25,000	-	1,220,250	961,316

14. NON-CONTROLLING INTERESTS

	December 31, 2003	December 31, 2002
Non-controlling interest in IPC US	$ 28,622	$ 44,655
Non-controlling interest in various US properties	6,174	2,898
	$ 34,796	$ 47,553

Non-controlling interest in IPC US represents approximately 11.0% (December 31, 2002 – 23.0%) economic interest in the underlying properties of IPC US and is the result of the 51% equity interest in IPC Realty Limited. The debentures due in 2008 held by entities under common ownership with IPC Corp ("2008 Debentures") in the amount of $23,944,000 (December 31, 2002 – $23,944,000) were settled in May 2003 with $7,000,000 converted into equity in IPC Realty Limited and the remaining $16,944,000 redeemed for cash.

The income allocated to non-controlling interest is calculated using a weighted average of 15.4% for the year ended December 31, 2003 (year ended December 31, 2002 – 24.6%) on the income before non-controlling interest after adding back depreciation and amortization (excluding amortization of leasing costs), future income tax expense, long-term incentive plan expense, acquired leasing costs and in place lease adjustment, consistent with the calculation of Distributable Income.

Non-controlling interest in various US properties includes an 11% minority partner in the 1650 Arch Street property and a 20% partnership interest in the 11 Stanwix Street property.

15. JOINT VENTURE

The following amounts represent IPC US's 60% interest in the Wanamaker property purchased in May 2003 and accounted for as a joint venture.

	As at December 31, 2003
Assets	$ 81,182
Liabilities	72,616

	For the period from May 2003 to December 31, 2003
Revenue	$ 8,064
Expense (excluding Depreciation and Amortization)	6,848
Depreciation and Amortization	384
Cash flow from (applied to)	
Operating activities	4,230
Investing activities	(8,544)
Financing activities	7,150

A wholly-owned subsidiary of IPC US is contingently liable for the obligations of its partners in the joint venture. The assets of the joint venture are available and sufficient for the purpose of satisfying such obligations.

16. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Tenant inducements

The REIT has committed $296,800 in tenant inducements as at December 31, 2003.

Ground leases

The following is a schedule of future minimum rental payments and renewals under two non-cancellable operating ground leases (excluding renewal options), which are accounted for as operating leases. The operating leases expire in 2067 and 2083, taking into account renewal options in favour of the REIT.

2004	$ 171
2005	171
2006	171
2007	171
2008	171
Thereafter	3,359
Total	$ 4,214

Lease expense for the year ended December 31, 2003 was $367,000 (year ended December 31, 2002 – $430,000).

Contingencies

The REIT's subsidiaries are involved in litigation and claims that arise from time to time in the normal course of business. In the opinion of management, none of these, individually or in aggregate, would result in a liability that would have a significant adverse effect on the financial position of the REIT.

There is a loan outstanding granted by a government agency related to a major tenant that will be forgiven over ten years if the tenant meets certain minimum employment numbers. The REIT's maximum potential exposure related to this loan (net of funds deposited in escrow by the vendor) is $390,000.

Guarantees

The REIT has implemented the requirements of Accounting Guideline 14 – "Disclosure of Guarantees," issued by the CICA, which requires a guarantor to disclose information about guarantees it has provided. Under this Guideline, a guarantee is defined as a contract or indemnification agreement that requires an entity to make payments to a third party contingent on future events. The disclosures are required even when the likelihood of the guarantor having to make any payment under the guarantee is remote.

The Declaration of Trust provides that the REIT shall indemnify a Trustee against all liabilities, damages, losses, debts, claims, costs, charges and expenses, including an amount paid to settle an action to satisfy judgement, reasonably incurred by him or her in respect of any civil, criminal or administrative action or proceeding to which he or she was made a party by reason of being or having been a Trustee of the REIT if he or she acted honestly and in good faith with a view to the best interests of the REIT or, in the case of criminal or administrative action or proceeding that is enforced by monetary penalty, he or she had reasonable grounds for believing that his or her conduct was lawful. The REIT maintains insurance for the benefit of its Trustees and officers against liability in their respective capacities as Trustees and officers.

The REIT has entered into underwriting agreements that provide for indemnification to third parties in connection with public offerings. These indemnification provisions generally require the REIT to indemnify the underwriters and their employees for all losses, claims and expenses incurred by such persons on account of the REIT's non-compliance with applicable securities laws. Any claims for indemnification would normally arise within a three-year period following an offering and are limited to the amount raised. The REIT is not aware of any claims; and accordingly, has not made any payments, under such indemnities, and no amount has been accrued in the financial statements with respect to these indemnities.

17. NET INCOME PER UNIT CALCULATIONS

Basic net income per unit is calculated based on a weighted average of 26,554,081 units for the year ended December 31, 2003 (year ended December 31, 2002 – 16,627,763 units).

Diluted net income per unit is calculated based on a weighted average of 26,691,681 units for the year ended December 31, 2003 (year ended December 31, 2002 – 16,677,101 units), which reflects the potential exercise of 1,195,250 outstanding options for the year ended December 31, 2003 (year ended December 31, 2002 – 1,165,250) as the exercise price of these options was less than the average market price of the units during these years.

18. DISTRIBUTIONS TO UNITHOLDERS

Distributions to unitholders are computed based on distributable income as defined by the Declaration of Trust. Distributable income is not a GAAP measure and there is no standardized measure of distributable income. Distributable income, as presented, may not be comparable to similar measures presented by other real estate investment trusts.

Distributable income, as defined in the Declaration of Trust, is calculated as net income, as determined in accordance with Canadian generally accepted accounting principles, including adding back depreciation and amortization (excluding amortization of leasing costs), future income tax expense and excluding any gains or losses on the disposition of any asset, future income tax benefit and any other adjustments determined by a majority of the Trustees in their discretion. As a result of the change in accounting for acquisitions and introduction of a long-term incentive plan, the Trustees have also determined to add back amortization of acquired leasing costs, amortization of in-place lease income adjustments and long-term incentive plan expense in determining distributable income.

For the year ended:	December 31, 2003	December 31, 2002
Net income	$ 13,271	$ 6,450
Add:		
Depreciation and amortization [1]	5,586	3,711
Future income tax expense	4,184	4,252
Non-cash long-term incentive plan	353	-
Amortization of acquired leasing costs	67	-
Amortization of in-place lease income adjustments	(19)	-
Distributable income	23,442	14,413
Retained amount	4,786	3,487
Distributed to Unitholders	$ 18,656	$ 10,926 [2]

(1) Excludes amortization of leasing costs

(2) Includes $332,900 relating to the 12-day period ended December 31, 2001

19. SEGMENTED FINANCIAL INFORMATION

The REIT's operations cover both office and retail types of real estate properties. The following summaries present segmented financial information for these property types:

As at and for the year ended:	December 31, 2003	December 31, 2002
Office		
Rental revenue	$ 90,482	$ 55,509
Operating costs	39,543	22,769
Depreciation and amortization	4,988	3,210
Total assets	666,104	410,652
Retail		
Rental revenue	11,746	11,222
Operating costs	3,561	3,247
Depreciation and amortization	1,029	965
Total assets	107,439	98,432
Head Office		
Depreciation and amortization	664	353
Future income tax asset	16,833	12,845
Other assets	12,729	7,949
Total		
Rental revenue	102,247	66,731
Operating costs	43,104	26,016
Depreciation and amortization	6,681	4,528
Total assets	803,105	529,878

20. FINANCIAL INSTRUMENTS

In the normal course of its business, the REIT is exposed to a number of financial risks that can affect its operating performance. These risks, and the actions taken to manage them, are as noted below.

(a) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulties and be unable to fulfill their lease commitments. The REIT mitigates the risk of credit loss by reviewing each prospective tenant's credit history before signing new leases and conducting regular reviews of its existing tenants' credit performance.

(b) Interest rate risk

The REIT's exposure to interest rate risk relates to its long-term debt almost all of which bears fixed rates and are due between 2008 to 2018.

(c) Fair value of financial instruments

The fair values of the majority of the REIT's financial assets and liabilities, representing net working capital, approximate their recorded values due to their short-term nature.

21. SUBSEQUENT EVENTS

The REIT entered into partnership agreements with two existing partners. The partners invested $2,433,000 and $3,500,000 to acquire a 14% equity interest in the Florida properties and a 12.14% equity interest in the New Orleans property, respectively. Closing is expected to occur in March 2004.

On March 9, 2004, the REIT announced that it had entered into an agreement with a syndicate of underwriters to issue to the public, on a bought deal basis, 3,550,000 units from treasury at a price of US$8.55 per unit. The REIT also granted the underwriters an option, exercisable in whole or in part prior to closing of the financing, to purchase up to an additional 532,500 units, at the same offering price. Should the option be fully exercised, the gross proceeds of the financing will be $34.9 million. Closing of the offering is expected to occur on April 8, 2004, and is subject to regulatory approvals.

PRF has also agreed to invest $4.0 million ($4.5 million, if the option is exercised) into IPC Realty Limited. Closing is expected in April 2004.

22. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Corporate Information

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RRSP, RRIF, DPSP

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Auditors
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Stock Exchange Listing
Toronto Stock Exchange

Stock Trading Symbol
IUR.UN (Canadian dollar Units)
IUR.U (U.S. dollar Units)

Trustees and Senior Management

TRUSTEES
The Hon. Donald S. Macdonald, Chairman (1)(2)
Mr. Jack Bistricer (2)(4)
Ms. Janet Graham (1)(3)
Mr. Aladin Mawani (1)(3)(4)
Mr. Paul Reichmann (4)
Mr. Derek Watchorn (3)
Mr. Michael Young (1)(2)(3)(4)

(1) Member of the Audit Committee.
(2) Member of the Governance and Compensation Committee.
(3) Member of the Distributions Committee.
(4) Member of the Investment Committee.

SENIOR MANAGEMENT
Mr. Vinay Kapoor, President and Chief Executive Officer
Mr. Gary M. Goodman, Executive Vice President
and Chief Financial Officer
Ms. Elisabeth S. Wigmore, Chief Operating Officer
Mr. Y. Dov Meyer, Chief Investment Officer

Distribution Reinvestment Plan (The "Plan")

The REIT's Unitholders, who hold Units of record through a broker or other investment dealer recognized by The Canadian Depository for Securities Limited will be able to conveniently and economically increase their holdings in the REIT by taking advantage of the Plan. Monthly distributions are automatically reinvested in additional REIT Units without payment of brokerage commissions.

Participants in the Plan acquire additional units of the REIT, based on the volume weighted average closing price for the five trading days immediately preceding the relevant distribution date. For each $1.00 reinvested, participants receive $1.03 of new Units. The Plan is available to Canadian residents only. Please contact your broker for enrollment information.

Distribution Dates
Record Date – last business day of each month.
Payment Date – approximately 15th of the following month.

Tax Deferred (1)
Year to December 31, 2003 80.55%
Year to December 31, 2002 79.82%

(1) Non-resident US Unitholders are subject to a 15% withholding tax on the taxable portion of the Distribution.

Design Hambly & Woolley Inc. **Printing** C.J. Graphics Inc. Printed on recycled paper

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IPC US REIT

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